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Accountants' Role 'Narrowly Conceived' – Fulton Report

IT would be surprising if the generally enthusiastic reception afforded the *Report of the Committee on The Civil Service*, volume 1 (Cmnd 3638, H.M.S.O., 17*s* 6*d*), was not partly a reaction after the apparently less constructive and more cautious Donovan Report on trade unions and employers' organizations. Lord Fulton and his colleagues, who set about their task with zest, have made no less than 158 recommendations. Many of them are far-reaching and, if fully implemented, the Civil Service will lose its nineteenth-century image. Furthermore, Lord Simey's brief but significant note of reservation apart, the report is unanimous.

A little more realism is required, however, in assessing the merits of the report than seems so far to have pervaded some published comment. One can certainly approve of the case for widening the basis of entry to the highest posts and for eliminating the marked 'class structure' of the service. Likewise one can only applaud the emphasis on professionalism, as well as the criticisms of amateurism and the 'cult of generalism'. While Government departments have in recent years sought to increase their efficiency by the application of O. & M. together with cost-effectiveness techniques, there is widespread recognition that there is considerable room for improvement.

The greatly increased involvement and overall responsibility for directing the economy which now rest jointly upon the Treasury and economic departments, has spotlighted the lack of professional advisers with competence in the fields of economics and allied disciplines. Nevertheless it is all too easy to stress the need for professionalism in these fields and to criticize the answer.

What tends to be overlooked in much of the current discussion of the country's economic problems is that decisions are not made on the basis of economic facts alone. Policy-making is largely a matter of judgement, and in making sound judgements clarity of thought is every whit as important as a grasp of economic principles. Whatever may be the defects of top civil servants, lack of intellect is not among them.

The Fulton Committee is on very much better ground when it criticizes the Civil Service's failure to make full use of modern management techniques and to 'recruit sufficient qualified people (i.e. accountants) as well as not deploying them in positions of proper responsibility'. In short, the position as far as the employment within the service of qualified accountants is concerned, is 'unsatisfactory and calls for substantial and early improvement'.

Appendix D of the report comments that 'it is generally accepted that accounting is no longer a matter of book-keeping, but of financial management in its widest sense'. Within the service 'the role of the accountant is narrowly conceived' and if the number of accountants on the staff – a mere 350 permanent posts out of a staff of over half a million – is any indication of attitudes, the value of the professional accountant is grossly underestimated.

The committee observes somewhat tartly that 'at a time when qualified accountants are in increasing demand throughout industry and commerce, the service can offer neither work of a sufficiently high level, nor career prospects of sufficient attraction to bring in good men and women with these important qualifications and to pay them competitive salaries'. At the same time, the committee notes that the service has utilized private accountancy firms for major jobs outside the normal routine and appreciates that there are advantages in continuing this practice. But this, it declares, is not a 'substitute for a strong force of highly-qualified professional accountants within the service'.

Certainly the Accountants' Joint Parliamentary Committee, which submitted evidence to the Fulton Committee (*The Accountant*, November 11th, 1967), cannot complain that their representations have been ignored. Indeed, the profession can fairly claim that the committee's views, as expressed in Appendix D, fully reflect the attitudes of most progressive accountants. The report specifies four main areas in which the skills of qualified accountants can be effectively utilized. They are, as members of top management groups – 'since through their training and experience they can contribute much to the solution of major problems' – and in the fields of purchasing, costing and control procedures, and in the management services.

One of the most thought-provoking – if not crystal-gazing – proposals is that the service should, in a period of national shortage of accountants, 'help itself by producing some of its own talent'. To this end the committee suggests that trainees could be articled to members of the profession within Government departments, while other entrants with suitable 'A' level or similar qualifications, should be encouraged to acquire professional accounting qualifications.

All that now remains, given the Government's acceptance of the report, is to see how long it takes to implement the committee's recommendations.

Economic Diagnosis

THE number of words written during the past two decades about Britain's economic problems has probably tended to grow rather more rapidly than has the gross national product. The latest study of the British economy has attracted particular attention, not because it has anything particularly new to say or new solutions to offer, but by virtue of its authorship.

Eleven distinguished Canadian and United States academic economists, with experience of Government service, have been examining the different facets of British economic policy since 1945, and their findings appear as a study by the Brookings Institution – a leading American foundation concerned with economic research[1].

The fact that every school of economic thought in Britain will be able to find in this report some support for their particular panacea is not a criticism of work, any more than the absence of simple and straightforward policy recommendations designed to put the economy to rights reduces the importance of the argument. The essence of economic policy is ultimately judgement as to what is feasible in the context of current political thinking. It is for such simple reasons that economists can differ so strikingly in their policy recommendations, although their diagnoses of the economic ills may not differ significantly. The transatlantic authors take full cognizance of such considerations.

They take an encouraging view of the probable effects of devaluation, but contend that more fundamental industrial changes need to be made. In particular, the authors recognize the limitations of recent incomes policies – such policies do not seem to increase in effectiveness the longer they are imposed. The results of Government measures to remove inefficient patterns of organization in industry, as well as obstacles to higher productivity, are difficult to assess.

The slow rate of growth in industrial investment compared with that in Europe is deplored; this is the reason for the lower level of Britain's net capital stock per worker compared with that of any of the major

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[1] *Britain's Economic Prospects*, by Richard E. Caves and Associates. A Brookings Institution Study. (George Allen & Unwin Ltd. 72*s*.)

European industrial nations except Italy. Closely related to this is the considerable inefficiency, both in the organization of business enterprises and in the use of the labour force. The growing shift towards the creation of policies favouring industrial competition, to the extent that it corrects such defects, should yield slow but significant dividends in the future. There is, in the opinion of the authors, a strong case for U.K. membership in a larger trading area, such as the European Economic Community.

The most striking proposition is that in Britain we may be propounding growth and change in a society where don and docker alike prefer tradition, leisure and stability. This is fair comment, and providing there is a readiness to pay the price, it is also a reasonable policy. On the other hand, as the report observes, many segments of British society have declared for growth – or rather more precisely, the fruits of growth. So far, there has only been failure in efforts to bridge the gap between the two groups.

Current Affairs

New Law Reform Society

A new association has been established to fight for improvements in the system of framing and publishing laws. The principal objects of the Statute Law Society, as it is called are:

(i) to procure and further the making of technical improvements in the form and manner in which statutes and delegated legislation are expressed and published with a view to making the same more readily intelligible;

(ii) to further the education of the public in the processes and scope of legislation of all kinds and at all stages and for this purpose to gather and disseminate information on legislative processes of all kinds.

Chairman of the new society is Mr Frank Layfield, Q.C., and its founder members comprise distinguished representatives of the professions (barristers, solicitors, accountants and surveyors) including Lord Shawcross, Lord Stow Hill (formerly Sir Frank Soskice), Lord Grimston, Sir John Mellor (Chairman of the Prudential Assurance Co Ltd), Sir Henry Wells, (Chairman of the Land Commission), and Mr T. W. MacDonald, C.A., a member of Council of The Institute of Chartered Accountants of Scotland. Treasurer of the Society is Mr David C. Hobson, M.A., F.C.A., of Messrs Cooper Brothers & Co.

The society first plans to carry out a thorough investigation into the deficiencies of the present system of producing, amending and publishing statute law, and will then put forward detailed proposals for reform. It will work closely with the Law Commission and by virtue of an expert and widely qualified membership – which already includes three past or present parliamentary draftsmen – it will be well-equipped for its task.

In a message read at the inaugural meeting of the society on June 11th, Mr Justice Scarman, Chairman of the Law Commission, said: 'The Law Commission welcomes the establishment of the Statute Law Society. The state of our statute law, its arrangement, presentation and drafting, are questions to which public attention needs to be given. If those who have to use the statutes can give a thought to these problems, their influence may well be very beneficial in finding solutions. The Law Commission wishes the Society well, and looks forward to its assistance'.

The society seeks to draw a large membership from the professions, commerce and industry, as well as from the universities and all fields where use is made of statute law. It is felt that the present system pays too little attention to the requirements of statute law users, with consequent inefficiency and waste of valuable material.

Individual subscription to the society is three guineas a year, and corporate subscription is fifty guineas a year. The secretary is Mr Christopher Whybrow, 1 Essex Court, Temple, London EC4 (telephone 353 5724), who will be glad to supply any further information to interested inquirers.

Kennedy Round Results

As the result of the recently completed Kennedy Round negotiations, tariffs on goods comprising some $40,000 million of world trade will be subject to reducing tariffs between July 1968 and 1972. The cuts on industrial goods average 35 per cent, with many cuts of 50 per cent. Concessions granted to the U.K. by other countries include an average cut of 36 per cent in the E.E.C., 41 per cent by the U.S.A., and 35 per cent by Japan.

The benefits of these cuts, states a research study from the stock-broking firm of Hoare & Co, entitled *The Kennedy Round*, extend to a wide range of U.K. industries. Mechanical engineering and motor industry products in particular will find their export opportunities enhanced. The benefits of these cuts, states the study, will in the longer run exceed the advantages conferred upon U.K. exporters by the recent devaluation. By 1972, when the full impact of these cuts will be felt, the advantages of devaluation are likely to have been substantially eroded as the result of cost increases. In short, by 1972, tariffs will no longer represent a major impediment to international trade and, in such conditions, export-orientated U.K. industries should benefit.

Reciprocal tariff cuts have had to be made by the U.K. and these include reductions of 37 per cent on the E.E.C. trade, with 40 per cent and 34 per cent for imports from the U.S.A., and Japan respectively. Unlike devaluation, however, such cuts will not burden British industry with higher costs. They will, in fact, provide a much needed stimulus to competition which will, in the longer run, encourage mergers of British companies. Among the industries likely to be affected most by the reduced protection are those producing scientific instruments, clocks and watches, and electrical instruments, as well as printing.

In the short run the Kennedy Round results will delay the attainment of a balance on Britain's external trade account. In the long run, however, the spur of international competition can do nothing but good for British economy.

Injustice to Tenants

THE Rent Act 1965 decontrolled dwellings let on long leases, i.e. for twenty-one years and more. Some landlords then began letting property, of a type normally let weekly, for periods of twenty-one years. Tenants who entered into such leases, usually without professional advice, then repented of their bargains but found themselves in difficulties about repudiating them. Their plight was brought to the notice of the Government who, by section 39 of the Leasehold Reform Act 1967, brought back such leases within control. Dwellings of a rateable value exceeding £400 in London or £200 elsewhere remain uncontrolled; likewise dwellings whose current rent does not exceed two-thirds of the rateable value as at March 1965.

The Court of Appeal recently decided that where the ground landlord of a block of flats is entitled to make a service charge varying with the cost of the services, he may include the selective employment tax paid in respect of maintenance staff. Then the Budget doubled the tax. Some leaseholders of flats who have paid a handsome premium are now finding that the rent plus the service charge exceeds two-thirds of the 1965 rateable value. If the service charge is included as 'rent' for the purpose of the rent restriction Acts it will mean that they cannot legally take a lump sum on assignment of their flats.

The legal position is uncertain, and as it was presumably not intended to impose this hardship on tenants – particularly in an Act which was supposed to be for their benefit – the matter should be clarified by legislation straight away. It is just not good enough for the Government now to shelter behind arguments that the problem of unscrambling the omelette created by this bungling legislation should be settled by the Courts, as the Minister of Housing and Local Government seemed to indicate in reply to a recent question in Parliament. This can only mean heavy legal expenses for someone who is entirely innocent.

Questions in Parliament

MR CHARLES FLETCHER-COOKE (Cons., Darwen), will ask the Chancellor of the Exchequer next Wednesday (July 10th), what estimates he has made of investment in stocks in the first and second halves of 1968 and how these compared with forecasts published in the Financial Statement in March.

On the following day, Mr J. Bruce-Gardyne (Cons., South Angus), will ask the Secretary of State for Economic Affairs what limitations are placed by him on access by the Industrial Reorganization Corporation to public funds to support a share-purchasing operation by the corporation in the course of a take-over struggle.

Sir Brandon Rhys-Williams (Cons., Kensington South), will ask the Minister of Social Security on July 15th, whether, in order to end the hardship caused to people with low incomes by the cost of flat-rate national insurance contributions, he will now introduce legislation to substitute an increased contribution related to earnings.

E.C.G.D.'s Surplus

UNTIL the final months of the financial year 1967–68 it seemed likely that for the second year running the Export Credits Guarantee Department would show a deficit on the main 'commercial' account, said Sir Anthony Percival, C.B., the department's secretary, in a published statement last week. In fact the department ended with a provisional surplus of £1·9 million on the insurance account, compared with a deficit in the previous year of £5·5 million. Consequently the cumulative reserve now stands at £56·6 million (provisional) compared with £54·7 million a year ago and £60·2 million two years ago.

This improvement, said Sir Anthony, resulted less from the decrease in claims than from an increase in recoveries on earlier claims which rose from £5·1 million to £7·8 million. The national interest insurance account also showed improvement. A surplus of £3·3 million (provisional) compares with £1·5 million in the previous year, due mainly to an increase in premium receipts (mainly on financial guarantees) from £2·6 million to £5 million. In consequence the cumulative

Three residential courses on management information were held last week by The Institute of Chartered Accountants in England and Wales at the Hotel Metropole, Brighton. Each course dealt with the role of the accountant, financial management and he use of accounting information, analytical and statistical techniques, and management information systems. Some of those who ook part are pictured above. Top picture, *left to right*: Mr D. M. Parkes, F.C.A., a member of the management information course working party, with Messrs J. A. Dayer, F.C.A., of Wellington, S. Thomson, F.A.C.C.A., a lecturer, and P. A. Bush, A.C.A., also of Wellington. Middle picture *left*: Mr R. W. Foad, C.B.E., F.C.A., the Council representative (*centre*), chats with Mr B. H. Byrne, A.C.A., a ecturer (*left*) and R. F. Tuckett, B.A., Ph.D., a course director. Middle picture *right*: Mr A. Muir, B.Sc., a lecturer (*left*), talks with Mr R. G. S. Smith, B.Sc.(Econ.), A.C.A., of London. In the bottom picture are, *left to right*: Messrs W. Gillard, A.C.A., A.C.W.A., of Woking, M. J. Watson, A.C.A., and R. H. Ashby, A.C.W.A., both of Bristol, A. P. Hall, B.A.(Econ.), a course director, and J. G. Bean, B.Com., A.C.A., of Birmingham.

reserve increased from £20·6 million to £23·9 million.

In interpreting the year's accounts it was important, he said, to differentiate between claims arising through the failure of private buyers to pay – on which eventual recoveries average only about 30 per cent, and the remainder, predominantly due to exchange shortages which in the past had always been recovered.

It was therefore disturbing that 'buyer' claims continue to increase. These amounted to some £5·5 million, compared with £3·9 million in the previous year, and an average of £2·3 million over the four years from 1961 to 1965. 'To some extent this increase must reflect the pressure of current world economic weaknesses on individual importers but there may also be an underlying longer-term trend'.

Sir Anthony said that during the year his department had organized a number of lines of credit in certain countries in order to create opportunities for British trade as favourable as those offered by other exporting countries. In such cases they had agreed to guarantee loans made by British banks to finance sales of United Kingdom goods or projects in advance of the settlement of the individual supply or constructional projects to which the loans would eventually apply.

This is My Life

by An Industrious Accountant

THE deputy-chairman threw open my door without first knocking, in his usual autocratic way. He hesitated a moment, then came in slowly, slumped heavily into a chair and sat staring at me. His heavy jaw hung slack and his eyes were bewildered. 'How did my son behave himself when he worked in your department?' he asked.

Several appropriate answers occurred to me simultaneously. First, I might have said that his hulking offspring never did a decent day's work in the whole three months that he spent in Accounts. Or secondly, that the question might better have been posed several weeks ago when he left the department, if any constructive policy of career development was to be planned for the young man. Or thirdly, that his son had behaved in a manner totally unworthy of the high standards required for what may be regarded as the *primus inter pares* of our various departments. Or fourthly, that . . . but, such candour was unthinkable. It was a time for tact.

With furrowed brows and finger tips pressed together in weighty contemplation, I outlined his son's more obvious achievements during his period of rotation with us. The deputy-chairman scarcely listened. He knew the score already. 'What's to be done with him now?' he demanded bluntly.

Again, appropriate reply was difficult. What can one do with a lazy, selfish, self-indulgent wastrel whose choice of amusements had so far been apparently limited to the seven deadly sins? Besides, a couple of years ago in a moment of well-meant but misguided zeal, I had already suggested to this same director a remedial course of treatment to adopt and had been sharply snubbed for my pains. Once was enough.

However, the father was hard hit. The son had just blotted his copy-book so appallingly in the personnel department, that Prinny had taken the unprecedented step of suspending him, with instructions not to report back until further notice. The repercussions were still reverberating through the store. The grape-vine was shaking with lurid unmentionables. Help must be given.

I suggested, therefore, that as an essential prerequisite the son must learn to accept strict discipline, whereupon the deputy-chairman said grimly to call the whelp a spoiled brat and be done with it. Too much money, pampering, and independence; not enough control and real parental understanding . . . 'great pity that suggestion of your's hadn't been accepted years back' . . . But no use crying over spilt milk. The damage was done; how the hell could we salvage something from the wreck?

That shrewdly used 'we' had the effect of somehow involving me in the reclamation work. Human frailties are always tempting to amateur psychologists, as I sometimes (quite unjustifiably, of course) see myself, so I tried to console him.

Prodigal sons weren't unique. Remember Henry IV's reprobate heir, young Harry, playing the fool with Falstaff and his fellow rogues; later he reformed brilliantly. What about Agincourt?

The deputy-chairman grunted that he'd done that stuff at school, and somehow a sort of comradeship developed. We quoted 'the hope and expectation of that time is ruined' and 'shame and dishonour stain the brow of my young Harry'. I suggested I should approach a firm of consultants who run residential management-training courses where intellectual slogging plus able and critical companionship might have corrective effects. Good idea, he thought; and perhaps we could then look for a U.S. business course to follow. I said I'd insert an extenuatory rumour in the grapevine; he said he'd talk firmly to Prinny about wild oats and thick heads on young shoulders.

We did a great job, in theory. Whether the delinquent has been sufficiently shaken to co-operate is another matter, but at least Accounts came up with an answer.

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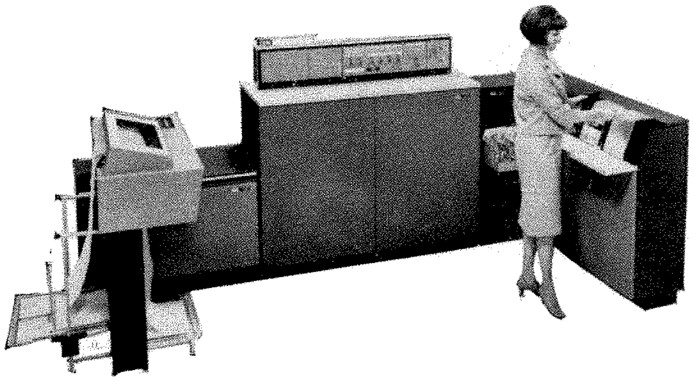

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CHARTERHOUSE GROUP

Unit-linked Life Assurance

by **OUR INSURANCE CORRESPONDENT**

THIS year there has been considerably more interest in the trust movement and accountants giving investment advice have found that one of the problems faced by many clients is the difficulty in selecting the right trust for their purpose.

Another question that is likely to be raised more frequently in the future is whether investment in a unit trust should be made by means of a unit-linked life assurance policy, or whether it is better for capital sums to be invested directly with a trust as and when they are available.

One definition of a unit trust is: 'A scheme setting up a fund of securities, cash and other assets held by trustees on behalf of a number of investors. Its operation is regulated by trust deed which allows for the participation of additional investors on terms precisely matched to the size of the interest obtained in the fund.' Before any public offer of units for sale may be made, the managers of a unit trust have to obtain approval from the Board of Trade. But despite the various safeguards incorporated in unit trusts, only the investment skill of the managers will achieve a satisfactory performance, whether the aim is primarily to obtain a high yield or worth-while capital appreciation over the years.

Regulation of management charges

The Board of Trade regulates the charges which unit trust managers may make. These consist of an initial charge, which must not exceed 5 per cent, and a half-yearly management fee not in excess of about ½ per cent; a special formula is used to calculate the maxima of these charges. Within this framework, some trusts elect to make a higher initial charge, with a lower half-yearly fee, whereas others work on the other principle. In the main, the average investor is not greatly affected by whichever method of charges is selected by a given trust as, *inter alia*, it is necessary to take into account the difference between the buying and selling prices operated by the trust. But it is generally agreed that the investor pays only a modest charge for the benefits which he obtains from professional management.

Some unit trusts, however, make a special point of charging appreciably lower fees than the majority. Generally, to achieve this, the minimum initial investment is quite high – say £1,500. The management of most of these trusts can be considered as good as any, and some have attracted a considerable volume of funds in view of their impressive performance.

The actual dealing prices quoted by unit trust managers are normally well within the maximum and minimum prices as laid down by the Board of Trade formula. The 'offered' price is related to the value of the investments in the fund taken at their lowest market dealing prices. Units will be bought back by the managers at the 'bid' price. The minimum repurchase price permitted is based on the value of the fund at the highest market dealing prices of the securities in it, less brokerage and contract stamp.

Unit trust managers try to encourage regular investment in one way or another. This, of course, is a compromise, based mainly on the assumption that the price of equities will rise over the long term – a reasonable assumption since it is a fact that equity prices have not fallen behind the value of money since the Limited Liability Act some ninety years ago.

All-important factor

As already mentioned, investment management is an all-important factor in the selection of a unit trust. Currently, there are about forty very active management groups. The size of the funds which they control ranges from over £200 million to less than £1 million in the case of those which have started quite recently. It is often said that it is easier – from the investment point of view – for a manager to have a small fund than a large one, although managers whose funds were quite small initially but which have grown, tend to dispute this, saying that they have noticed no difference.

When a regular investment is being planned, clearly the aim is to select a unit trust which will still be well managed at the end of that period. At present, many of the management companies are very new and are still relatively small and untried. Whilst their management may appear to be good, it can be more difficult in their case to decide whether they will maintain this standard in the future. There are some who take the view that there is a far greater probability of continued good management in the case either of one of the larger groups or where a trust is managed by or advised by a merchant bank. Admittedly, by following that policy, a client could miss the best trust over the period. But he is much less likely to find that he has invested in one of those with the worst performance.

Unit-linked life assurance

For a regular investor, one of the best vehicles is a unit-linked life assurance policy. There is every reason to believe at the moment that the current return is unlikely to fall below seven or eight per cent per annum, although most of the insurance companies offering these schemes prefer to be rather more conservative. Thus they usually project their estimated maturity values at a growth rate between 4 and 5 per cent. Over the past twenty years, prices generally have increased by an average of $3\frac{1}{2}$ per cent per year. Clearly, therefore, an investment linked to a unit trust should certainly more than counteract the erosion of the purchasing power of money caused by inflation.

The first endowment policy linked to a unit trust was introduced in 1957. During the last few years, however, there has been a considerable increase in the number of these schemes and many of the larger insurance companies are running their own unit trusts for this purpose in the form of special funds invested virtually exclusively in equities.

One of the important features of equity-linked life assurance is that, when investment is undertaken in this way on a regular basis, the statutory life assurance relief of income tax can be claimed on the premiums. It is therefore cheaper for a person paying income tax at the standard rate who is planning an investment in a unit trust spread over a period of years to make his investment by means of an endowment policy rather that to buy units direct. This is because, in the case of a standard rate income tax payer and subject to the statutory limitations, life assurance premiums qualify for relief of income tax at the rate of £16 10*s* for every £100 of premium. For most ages and terms of policy this is substantially more than the cost of the life cover provided by the contract.

Policies on this basis effected on or before March 19th, 1968, are totally unaffected by the changes introduced in the Budget unless they are varied. Where necessary, changes have been made to contracts effected since March 19th, so that they qualify for tax relief.

Variety of contracts

There are a variety of contracts which can be linked to a unit trust. In the first place, there is a conventional endowment policy effected at special rates. A further sum is added to the premium and is invested in units and the net income is reinvested in further units. At maturity, death or surrender, the policy-holder receives the appropriate value of the endowment, plus all the units accumulated to date. A variation to this basic concept is for a bonus to be declared on the endowment policy and for this to be invested in units, rather than for the additional premium to be invested in units.

In the case of term assurance, most of the premium is invested in units, and the net income is usually invested in the same way. The cost of the death benefit insurance and administrative expenses is met out of the balance of the premium not invested in units. Incidentally, the death benefit is a cash amount equal to the value of the units allocated so far, together with a cash amount equal to the amount which would have been invested under the remainder of the plan. On maturity, the policy-holder may either sell or retain the units, and an amount is deducted to cover the insurance company's liability to capital gains tax. The amount of this benefit has not been guaranteed, since this depends on the value of the units. Nevertheless, in view of the latest legislation, most of the companies operating this type of scheme are guaranteeing a death benefit equal to at least 75 per cent of the total premiums which would have been payable over the whole period of the policy if death had not occurred.

Most popular scheme

Perhaps the most popular contract of all has been endowment assurance linked to a unit trust. In this case, there is a guaranteed sum assured and the amount deemed to be invested in units is the sum assured divided by the period of the policy. For instance, if the sum assured is £1,500, and the period of the policy is fifteen years, £100 will be invested each year.

The effect of this is that the investment in units each year is higher than the actual premium paid, but the income from the units is retained by the insurance company. Alternatively, the actual premium paid is used to purchase units, and the policy-holder receives a bonus distribution of units each year. It is also possible for the underlying endowment policy to participate in profits, with the result that bonuses will be added to the maturity value of each policy.

The company's liability to capital gains tax has to be deducted from the policy proceeds. Nevertheless, with one arrangement, this is likely to be reduced, since the units are the property of the policy-holder at the outset and thus are not transferred to him (or retained by the company, with a cash payment being made), as is the case with most of the other arrangements.

One method which was particularly attractive was for all the units to be acquired at the outset of the policy, with the bulk of the cost being met not then, but by level premiums throughout the term of the policy.

In some cases, the basis of this type of scheme is a conventional endowment policy, with or without profits. The insurance company advances to the policy-holder a sum equal to the basic value of the policy. This is then invested in units which are assigned to the insurance company. Interest has to be paid on the loan, although one company retains the income from the units instead of requiring interest on the loan. This type of contract has been withdrawn in view of the latest legislation, although there are hopes that it may be re-introduced in an amended form at a later date.

Certainly it is this latter type of scheme which offers the greatest possibility of capital gain, since all the units are acquired in the first year, with the result that the full effect of any capital appreciation is obtained. With the other types of contract, the units are acquired over the period of the policy, with the result that the effect of capital appreciation in the early years is comparatively small.

Always in the Right

by **ROBERT A. FORDHAM, LL.B.**

'Minorities . . . are almost always in the right', said Sydney Smith. Whilst not going so far, this article is in the nature of a lament for the unfulfilled expectations of section 210 of the Companies Act 1948.

ALTHOUGH the modern company is acknowledged to have sprung from the womb of the trust it was, in its early days, also much connected with partnership and the rules governing that institution. Indeed, until 1856, it was uncertain whether business enterprise would mainly take the form of a limited company or a limited partnership. Its association with the partnership fostered an idea that, whatever the financial stake of each member in the company, voting power should be exercised on a *per capita* basis. A subsequent development which appeared in the Companies Clauses Act 1845 abandoned the equality principle in favour of one weighted in the interests of the smaller shareholder. The present system of nominee shareholdings and voteless shares evidences the distance travelled since those innocent days of corporate democracy.

Foss v. Harbottle ((1843), 2 Hare 461), is a reflection of its time. It reveals the Court's view that a decision taken by the majority binds the company as a whole including the minority. Of course, it goes further than this and regards also as binding on the minority a decision which *could have been taken* by the majority or *could have been ratified* by them (see especially Mellish, L.J., in *MacDougall v. Gardiner* (1875), 1 Ch.D. 13).

Exceptions to the rule

Since 1843 the Courts have many times contrived to extricate themselves from the restrictive clutches of the rule, and there are now several well-established exceptions to it. As well as the specific exceptions there is the suggestion of Jessel, M.R., in *Russell v. Wakefield Waterworks Co* ((1875), 20 Eq. 474, at 482):

> '. . . that is not a universal rule, it is a rule subject to exceptions, and the exceptions depend very much on the necessity of the case; that is, the necessity for the Court doing justice'.

It would appear, however, from *Pavlides v. Jensen* ([1956] 1 Ch. 565), that there is little comfort to be found for the dissatisfied minority shareholder in the remark; it seems to be capable only of a strictly *ejusdem generis* application.

Yet one might be forgiven for thinking that it matters little that the Courts have ceased to take the initiative in that the Legislature has now intervened. Does not the heading to section 210 refer to 'Minorities'? the marginal note to 'oppression'? and the section itself give the Court an almost unlimited power of dealing with the situation?

The history of this provision is that it made its first appearance in the 1948 Act pursuant to a recomendation of the Cohen Committee (paragraph 60). The committee were of opinion that such a provision should only apply to private companies but, as enacted, it applies to 'a company' without qualification. It in fact appears to be the case that all the reported disputes under the section have related to private companies. The Cohen Report said:

> '. . . the Court should have . . . the power to impose upon the parties to a dispute whatever settlement the Court considers just and equitable. This discretion must be unfettered, for it is impossible to lay down a general guide to the solution of what are essentially individual cases.'

In the event the power was given to the Court to 'make such order as it thinks fit'. However, this does not absolve a petitioner from setting out the relief that he desires. In the Court of Session proceedings in *Scottish Co-operative Wholesale Society v. Meyer* ([1958] A.C. 324), Lord Cooper remarked that the judges 'have not been constituted an earthly providence in matters of this kind, and it is for the petitioners to state what they primarily want'. This had already been put with less flourish by Roxburgh, J., in *Re Antigen Laboratories* ([1951] 1 All E.R. 110):

> 'The petitioner must take the responsibility of stating specifically what he wants.'

In subsequent cases a wide variety of requests has been made: the purchase of the shares of the oppressed minority, *Scottish Co-operative Wholesale Society v. Meyer (supra)*; *Re Five Minute Car Wash* ([1966] 1 All E.R. 242); the removal from office of a tyrannical director and changes in the articles, *Re H. R. Harmer* ([1958] 2 All E.R. 689); the appointment of a receiver and manager, *Re Bellador Silk* ([1965] 1 All E.R. 667); the payment of compensation to the company by the majority shareholders, *Heyting v. Dupont* ([1964] 2 All E.R. 273); the rescission of certain resolutions of the board of directors, *Re Lundie Bros* ([1965] 2 All E.R. 692). One wonders if, in an appropriate case, the Court could order the declaration of a dividend.

As we have already seen, *Re Antigen* was an unfortunate debut for section 210. No more successful were the petitioners in *Elder v. Elder and Watson* ([1958] 3 All E.R. 689), a Scottish case. Their complaint was that, being minority shareholders, they had been deprived of their offices as director and secretary. It was held that they had no remedy as section 210 only related to oppressive conduct against a member *qua* member and not in any other capacity. This is a distinction for which there is some precedent in another branch of company law (see *Eley v. Positive Life Assurance Co* ((1876), 1 Ex. D. 88)), though even here one can detect some recent willingness to blur the distinction (*Rayfield v. Hands* ([1958] 2 All E.R. 194)). It might also be thought that such adventures in metaphysics were not altogether appropriate to such a case.

Thus the conduct complained of must affect the member *qua* member. What sort of conduct is necessary to bring the section into play? It must be 'oppressive'. In the last case this was said by Lord Cooper to be that:

> 'the conduct complained of should at the lowest involve a visible departure from the standards of fair dealing and a violation of the conditions of fair play on which every shareholder who entrusts his money to a company is entitled to rely'.

Meaning of 'oppression'

This matter has been most exhaustively discussed in *Meyer*'s case ([1958] A.C. 324). Viscount Simonds gave 'oppressive' its dictionary meaning of 'burdensome, harsh and wrongful' and quoted further from Lord Cooper:

> 'the section warrants the Court in looking at the business realities of the situation and does not confine them to a narrow legalistic view.'

With respect one might question that this has always been the attitude of the judges. Lord Keith said, 'oppression suggests a lack of probity and fair dealing in the affairs of a company to the prejudice of some portion of the members'. (In fact in *Meyer*'s case the oppression affected minority and majority alike *qua* shareholders.) In this case the House of Lords was so disposed to consider the business realities of the situation that they referred to the company consisting of the parent society and the two independent shareholders as a 'partnership' and regarded the obligations of utmost good faith appropriate to a partnership as owed by one member of the company to his fellows.

In *Re H. R. Harmer* (*supra*), the only English case fought to a successful conclusion, Willmer, L.J., said:

> 'it is quite impossible to lay down, *a priori*, certain categories of conduct which in all circumstances either are or are not capable in law of amounting to conduct which is oppressive within the meaning of the section . . . the section invites attention, not to events considered in isolation, but to events considered as part of a consecutive story'.

In the same case, Jenkins, L.J., said that the oppression must be a continuing process. This may be justified by the Act's reference to 'affairs . . . are being conducted . . .' but it would seem that if this is right there would be no redress against an isolated act of oppression, e.g. where the majority make a loan to the company at an exaggerated rate of interest.

In *Re Five Minute Car Wash* (*supra*), Buckley, J., said that the majority must have acted 'at least unfairly' and that in particular loss of 'confidence in the manner in which the company's affairs are being conducted does not lead to the conclusion that the petitioner is oppressed'. Thus unfairness viewed in the light of the business realities of the situation may amount to oppression. It is suggested with respect that *Re Lundie* (*supra*), where relief was refused is such a case. Here a minority shareholder and director complained of a policy pursued by the majority of ousting him from participation in the business. Plowman, J., was unwilling to break new ground and, having admitted that 'this is in substance a partnership case' resorted to the oppression *qua* shareholder and *qua* director distinction. Yet business realities might have encouraged the shareholders here to exercise their control and receive their payment as directors rather than as shareholders.

Not only must the petitioner establish oppression he must also show that the situation is such that the Court would be justified in making a winding-up order on the 'just and equitable' ground – section 210 (2) (*b*). The circumstances in which this would be justified were described in *Re Yenidje Tobacco Co* ([1916] 2 Ch. 426):

> 'Refusal to meet on matters of business, continued quarrelling and such a state of animosity as precludes all reasonable hope of reconciliation and friendly co-operation, have been held sufficient to justify a dissolution. It is not necessary, in order to induce the Court to interfere, to show personal rudeness on the part of one partner to another, or even any gross misconduct as a partner. All that is necessary is to satisfy the Court that it is impossible for the partners to place that confidence in each other which each has a right to expect, and that such impossibility has not been caused by the person seeking to take advantage of it.'

Courts' interpretation

Whilst not resiling from this statement of the law, the Courts have interpreted the relevant part of section 210 which requires that 'the facts would justify the making of a winding-up order on the ground that it was just and equitable' to mean 'that the petitioner could ask for such an order'. The difference is this: that to entitle a member-petitioner to present a petition under section 222 (*f*) (the just and equitable provision), he has to show that there will remain a surplus after the creditors have been paid. In other words the petitioner must establish an interest in the liquidation (*Re S. A. Hawken* ([1950] 2 All E.R. 408)).

It might be argued that as the company is not going to be wound up there should be no need to establish a surplus. The answer to this was given by Plowman, J., in *Re Bellador Silk* (*supra*):

> 'If it is objected that the purpose of the section is to remove the oppression and enable the company to continue in being and that no question of surplus assets arises, the answer is, I think, that if the intention of the section had been to exclude from consideration one of the facts which was always material on a contributory's winding-up petition on the just and equitable ground, it would have said so, and this it has not done.'

Yet it seems worth repeating that both in the Act and in the textbooks the question of what amounts to grounds for winding-up and the question as to whom may present a petition are treated as distinct topics and the section does not in its words require that the member should himself be able to present a winding-up petition. Indeed, the matter might be thought to have already been decided in *Meyer*'s case where Lord Cooper said:

> 'If it be the case that the respondents by oppressive conduct have virtually destroyed the substratum of the company, it would be very odd if on that account they could escape the consequences of section 210, for on that view the new statutory remedy would be available to the victims of slight oppression but not available where the oppression had been carried to the limit – the one case where the remedy is specially needed.'

That the section has disappointed in its operation is apparent from the Jenkins Report (paragraph 212). Here it was recommended that the provisions of section 210 (2) (*b*) (the requirement that it would be just and equitable to wind up the company) should be repealed, that it should be made clear that the section covers isolated acts of oppression as well as oppressive courses of conduct, and that the notion of oppression should be extended to cover acts which are 'unfairly prejudicial' to the interests of some part of the membership.

Even this would not cover the situation in *Re Five Minute Car Wash* where the alleged behaviour of the controlling shareholder was certainly unfairly prejudicial in the sense that it could not but have affected the value of the petitioner's shares but it was in fact equally oppressive of both the controlling shareholder and the petitioner.

So if the folly, inefficiency or sheer masochism of the controller prejudices himself as well there will be no ground for relief under section 210. The Jenkins recommendations did not, in this respect, attract the attention of the Board of Trade as a matter of urgency and still awaits legislative endorsement.

It is appropriate to remember that Sydney Smith also said: '. . . you never expected justice from a company, did you? They have neither a soul to lose, nor a body to kick.'

Quoted Securities and Tax

by H. S. A. MACNAIR, F.C.A.

THE Finance Act 1965 devised special rules for shares and securities which had quoted market values on a recognized Stock Exchange in the United Kingdom or elsewhere on April 6th, 1965, or at any time in the period of six years ending on that date (a convenient designation for such holdings is 'old-timers'). These rules do not extend to shares or securities of a company which are disposed of by a person to whom those shares were issued as an employee either of the company or of some other person on terms which restrict his rights to dispose of them.

The effect of these rules is that the use of historical cost in measuring the amount deductible from proceeds of realization is ignored, or fettered by the market value of the holding on April 6th, 1965. The latter value is determined in accordance with paragraph 22 (3) of Schedule 6 in the Finance Act 1965, and in practice is most conveniently ascertained from published sources which afford details for each class of holding, adjusted in appropriate cases to reflect its subsequent history.

Denial of recourse to historical cost is a characteristic of the 'zero' sub-rule which negatives both gain and loss in circumstances where the proceeds of disposal are intermediate between cost and market value at April 6th, 1965. Thus the purchaser for £200 of 240 2*s* 6*d* ordinary shares in Alpha Ltd of which the market value at April 6th, 1965, was 7*s* would suffer no chargeable gain so long as the proceeds of realization failed to exceed the cost price of 16*s* 8*d*. Correspondingly, a purchase for £200 of 480 5*s* ordinary shares in Beta Ltd of which the market value at April 6th, 1965, was 15*s* 10*d* would yield no allowable loss until the relevant proceeds fell short of 8*s* 4*d* per share.

Restricted gain or loss

Next, if we may borrow a metaphor from the dungeons of the Tower of London, the 'little-ease' is an apt description to apply to the sub-rule which restricts the amount of a chargeable gain or allowable loss to the least absolute distance of the proceeds from either cost or market value at April 6th, 1965. Thus, if the compulsory winding-up of Alpha Ltd is decreed and the owner of the above-mentioned shares establishes a claim under section 23 (4) of the Finance Act 1965 to the effect that the value of the shares does not exceed, say, 2½*d*, then not more than 6*s* 9½*d* would rank for relief. Again, should take-over fever raise the level at which the shares in Beta Ltd are realized to 20*s*, then only 4*s* 2*d* would be chargeable.

The 'zero' and 'little-ease' rules are no more than clogs upon the general rule which states that it is to be assumed that the relevant assets were sold by the owner and immediately re-acquired by him at their market value on April 6th, 1965. The principal significance of this assumption lies in the shot-gun marriage which the 1965 legislation enacted between old-timers (acquisitions before April 6th, 1965) and what may be described as new-timers (acquisitions of the same class after April 6th, 1965). These unhappy nuptials result from the decision to bring within the charge to capital gains tax those acquisitions effected before its introduction, contrary to the principle written into the earlier short-term gains law (Case VII of Schedule D).

Homogeneous pool

At this point it is necessary to examine the system of measuring chargeable gains from the acquisition and disposal of new-timers. The 'pool' rule is that any number of shares of the same class held by one person in one capacity are to be regarded as indistinguishable parts of a single asset, termed a holding. The pool grows on the occasions on which additional shares of the class in question are acquired and it diminishes when some of the constituent shares are disposed of.

The main practical consequence is that a disposal of shares (other than the disposal of an entire holding) ranks as a part disposal. In this connection paragraph 7 of Schedule 6 requires the attribution of (deductible) cost to the shares alienated to be effected by reference to the formula A:A+B, where A represents the value of the proceeds of disposal, and B represents the then market value of the undisposed residue.

It follows that whatever the cost of the constituent acquisitions, the price-tag to be attached to disposals from the pool as established at any point of time will be the same for all its members, in the absence of subsequent additions, despite the piecemeal character of disposals. The validity of this conclusion involves ignoring the possible discrepancy between the value of what is sold and what is retained at the same point of time although the writers who have alluded to this difficulty appear satisfied that the difference is negligible in practice.

Shares of a class

It should be observed that in this context shares are not to be treated as being of the same class unless they are so treated by the practice of a recognized stock exchange in the United Kingdom or elsewhere, or would be so treated if dealt with on such a stock exchange. The fact that shares may be identified in some other way by the disposal or by the transfer or delivery giving effect to it is not relevant.

Again, any shares the disposal of which is chargeable under Case VII of Schedule D (gains from disposals effected within twelve months of acquisition or bear transactions) are thereby automatically excluded from the pool, the Case VII identification rules (paragraph 8 of Schedule 9 in the Finance Act 1962) taking precedence.

Old and new in pool

By way of illustration of the 1965 rules we may assume the acquisition before April 6th, 1965, at a cost of £200 of a holding of 800 1*s* ordinary shares in Gamma Ltd with a market value of 5*s* 3*d* at April 6th, 1965 (£210), followed by a purchase of 800 similar shares at 5*s* 9*d* (£230) in the first half of 1966 to yield a pool comprising 1,600 shares at a communal cost of 5*s* 6*d* (£440). Provided that realizations are not effected at a price below the old-timer's 5*s* 3*d* point of departure for the 'zero' and 'little-ease' rules, the pool price will operate as the measure to be applied in computing gains for each and all of the 1,600 shares.

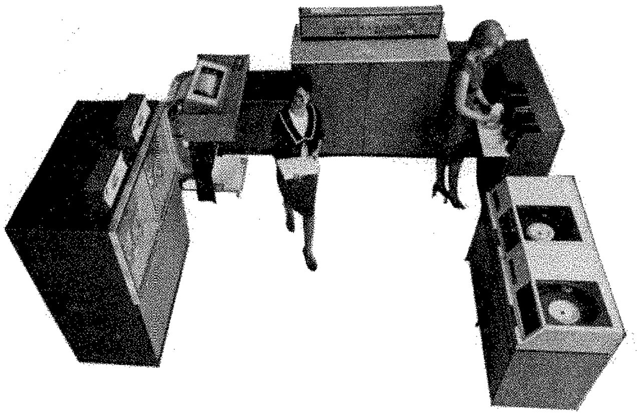
Another case might be that of the acquisition before April 6th, 1965, also at a cost of £200 (8*s* 4*d*) of the holding in Beta Ltd instanced above, followed by a similar purchase in the first half of 1966 for £220 (9*s* 2*d*). The pool thereby constituted under the 1965 rules would have comprised 960 shares at a communal cost of £600 (12*s* 6*d*) but only disposals above the 15*s* 10*d* mark would rank as disposals from the pool at the 12*s* 6*d* price. When old-timers forfeit pool status through the operation of the 'zero' or 'little-ease' rules they are deleted from the pool at the April 6th, 1965, values at which they were introduced, with the result that the pool price changes.

Thus a sale of 400 Gamma Ltd in July 1967 at 4*s* 6*d* would have led to an enhanced pool price of 5*s* 7*d* for the residual 1,200 shares, and an allowable loss of £10 (at 6*d* apiece) under the 'little-ease' rule. Similarly a sale of 160 Beta Ltd in July 1967 for 12*s* 6*d* would involve neither gain nor loss under the 'zero' rule and the pool price for this class of shares would be reduced to 11*s* 10*d*. These illustrations serve to show that even in the absence of fresh acquisitions the pool price is always liable to be disturbed by the accidents of the old-timers' pedigree.

Finance Bill proposals

The shot-gun marriage between old-timers and new-timers is to be dissolved by clause 27 of the Finance Bill, the decree taking effect as respects any disposal of quoted securities after March 19th, 1968. The decree is not to affect the legitimacy of the computations of the gains (or losses) accruing on a disposal before March 20th, 1968. In approaching computations relative to a subsequent disposal made out of

Cost conscious management move on to the new, powerful Model 20/5



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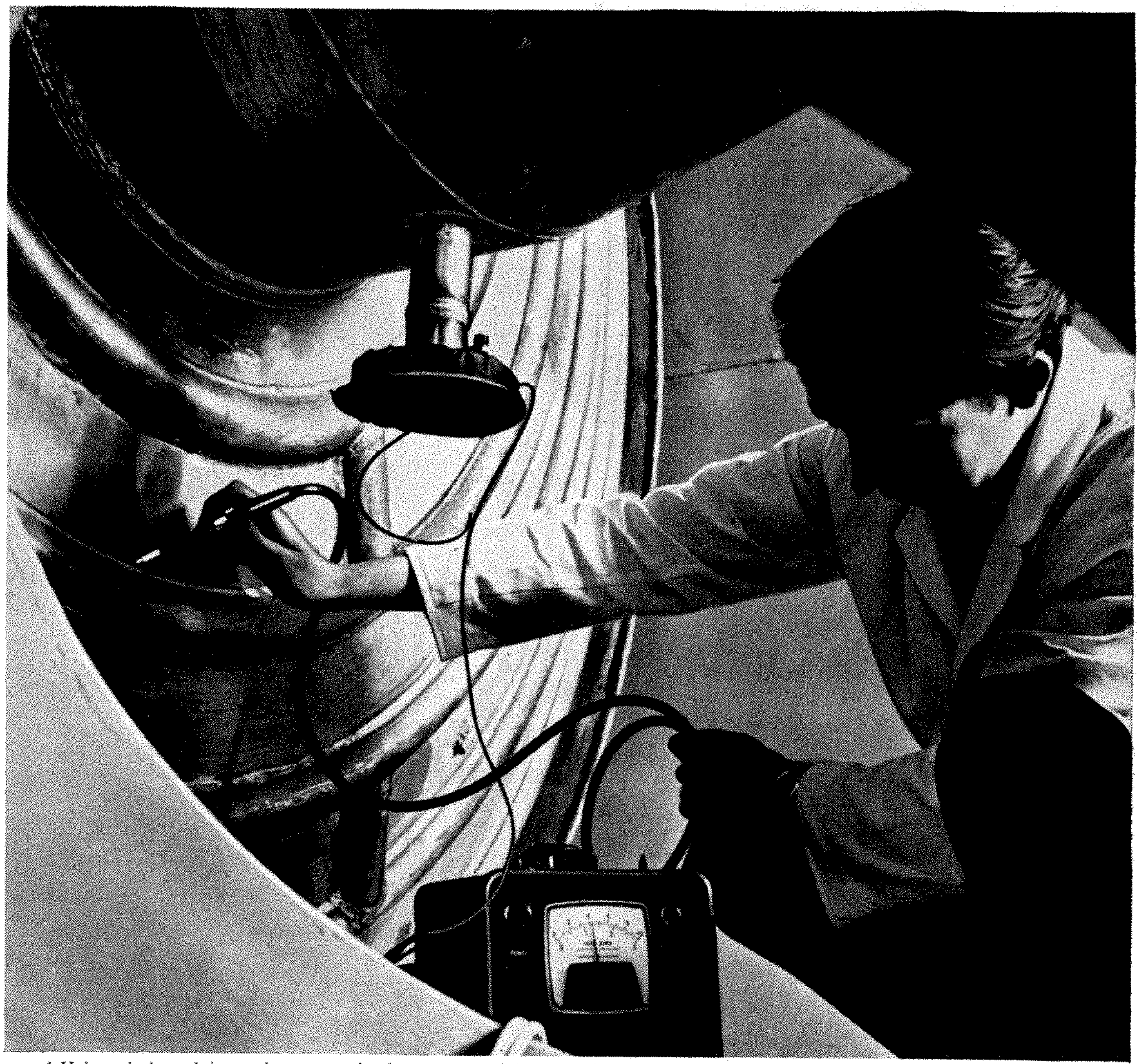

A Halogen leak test being made on a completed pressure vessel. Just one of the many tests witnessed and verified by NV Engineer Surveyors. *(photo: courtesy of Harvey Fabrications Ltd.)*

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either old-timers or new-timers, the pedigrees are to be traced as if their former integration had never existed.

Applying the new dispensation to the above examples, the pool prices determined for the residues in each instance would become void of effect. It would be necessary to eliminate the old-timers and as only one purchase of new-timers has been considered, the pool price would be equal to their cost price. Each class of old-timers would form a separate pool at April 6th, 1965, values. The position of the Alpha Ltd shares would be unchanged, but Beta Ltd would split into 320 old-timers at 15*s* 10*d* and 480 new-timers at 9*s* 2*d*. Gamma Ltd shares are priced as to the first 400 at 5*s* 3*d* and as to the 800 new-timers at 5*s* 9*d*. The aggregate values thus established are the same as the former values of the pools.

The latter remark would not hold good, however, if sales before March 20th, 1968, had eaten into the holdings of new-timers. Thus a sale of 900 Gamma Ltd in January 1968 at 6*s* would have left a pool of 300 which under the new proposals would have attributed to them a price of 5*s* 9*d* for computations relating to disposals after March 19th, 1968. Similarly a sale of 500 Beta Ltd at 16*s* would leave 300 carrying a revised pool price of 9*s* 2*d*. When identification of shares is required, the rule applied is that so far as they are of the same class, shares or securities acquired at an earlier time are to be deemed to be disposed of before items acquired at a later time (first-in, first-out).

Alternative arrangements

These new rules may be displaced by exercising the rights of election to be conferred by Schedule 11 in the Finance Bill. Such an election also involves the abandonment of the 'zero' and 'little-ease' rules as regards old-timers which thus remain in the pool to which they were introduced at their April 6th, 1965, values, no matter what the subsequent price of disposal. An election has to be made separately as regards the two mutually exclusive classes of equities and non-equities. Non-equities comprise, first, any share the holder whereof has no right to share in the profits of the company except by way of a right to a dividend at a fixed rate or a rate fluctuating in accordance with the standard rate of income tax (a preference dividend), and secondly, any loan stock or similar security whether of the Government of the United Kingdom or of any other government, or of any public or local authority in the United Kingdom or elsewhere, or of any company, and whether secured or unsecured (a fixed interest security). Any other quoted securities to which the 1965 rules discussed above apply (paragraph 22 of Schedule 6) make up the group here designated as 'equities'.

Conditions for an election

An election may be made as regards either or both classes, and when made extends to all disposals within the elected class which are made by the owner at any time after March 19th, 1968, including disposals made after that date but before the election. It may be thought that an election could not validly be made before the Bill receives the Royal Assent but any necessary (retrospective) adjustments are authorized by way of discharge or repayment of tax, or the making of assessments or otherwise.

Such an election has to be made by written notice to the tax inspector not later than the expiration of two years from the end of the year of assessment in which the first relevant disposal is made, or such further time as the Commissioners of Inland Revenue (the Board) may allow. It should be observed that this April 5th time limit is applied in relation to chargeable gains subject to corporation tax irrespective of the terminal date of accounting periods, a rule which facilitates the methodical review of time limits.

Excluded securities

There are certain situations in which securities may require to be excluded from both the equity and non-equity classes as a result of having been accorded a special status under general capital gains tax rules. Such securities will have been acquired by the holder on a disposal after March 19th, 1968, in a 'no gain, no loss' situation under the rules which avert the creation of a chargeable gain or allowable loss in relation to transfers between members of a group of companies (paragraph 2 (1) of Schedule 13 to the Finance Act 1965) or between spouses (paragraph 20 (1) of Schedule 7). However, an election can be established if the other member of the group of companies or the other spouse makes an election covering quoted securities of the kind in question.

For the purpose of identifying quoted securities disposed of by the holder with quoted securities acquired by him on a disposal in relation to which the right to elect is denied as above, so far as they are of the same class, quoted securities acquired at an earlier time are to be deemed to be disposed of before quoted securities acquired at a later time.

In interpreting the 'first relevant disposal' there is to be disregarded any disposal chargeable under Case VII of Schedule D, the latter category including any case where the acquisition and disposal is in circumstances such that no gain accrues but that if a gain had accrued it would have been so chargeable. A similar rule applies in interpreting the expression 'the relevant time' (see below).

New time limits

It is laid down by paragraph 1 (5) of Schedule 11 that where a person makes an election, as discussed above, as respects securities which he holds in one capacity, that election does not cover securities which he holds in another capacity. With an effrontery which takes one's breath away, the subsection goes on to declare that for the avoidance of doubt such an election is irrevocable. These are the very words applied to the election for valuation on April 6th, 1965, permitted by paragraph 25 of Schedule 6 as regards a disposal which would otherwise fall to be dealt with on the straight-line time apportionment basis of paragraph 24.

The harsh character of that irrevocable decision has been attacked on all sides, and paragraph 5 of Schedule 12 of the Bill proposes that the existing rule which measures the time in which an election may be made by reference to the twenty-four months following the date of disposal is to be displaced by a rule which allows two years from the end of the year of assessment in which the disposal is made (that is, April 5th following) or such further time as the Board may by notice in writing allow.

This more generous rule, with its possibility of unlimited extension, is to be available whether or not the time limit under the former rule has expired before the Royal Assent is given to the Finance Bill. In such a context one would have thought that to declare a new time limit irrevocable is the surest way in which to cast suspicion on the firmness of the legislator's intentions.

Subject to the comments below as regards groups, the term 'first relevant disposal' as regards the election available for equities and non-equities means the first disposal after March 19th, 1968, by the person making the election of securities of the kind covered by the election.

Groups of companies

A company is defined for the purposes of Part I of Schedule 13 to the Finance Act 1965 (as amended by paragraph 15 of Schedule 5 to the Finance Act 1966) in terms of a company within the meaning of the Companies Act 1948 or the Northern Ireland legislation, or one constituted under any Act, Royal Charter or Letters Patent, or a registered industrial and provident society or a company formed under the law of a country or territory outside the United Kingdom. In this context a society ranking as registered under the Industrial and Provident Societies Act 1893 is now treated as registered under the 1965 Act (section 4) and the relevant definition in section 442 of the Income Tax Act 1952 extends to the corresponding legislation in Northern Ireland.

The requirement as to origin is matched with a requirement as to residence in the United Kingdom. The criteria of residence of companies have been extensively canvassed under section 122 of the 1952 Act which formerly imposed the charge to income tax on resident companies and reference may be made to *De Beers Consolidated Mines Ltd v. Howe* (5 T.C. 198) and *Bullock v. The Unit Construction Co Ltd* (38 A.T.C. 351; 38 T.C. 712). It would seem that these criteria retain their validity in the context of section 46 of the Finance Act 1965 which imposes corporation tax, in view of the terms of section 53. As to the linkage between companies required to establish them as mutual members of a group it may be sufficient to refer to the profits tax rules (which the 1965 Act takes over with minor modifications) whereby 75 per cent control exercised directly or indirectly as prescribed was the linking factor.

As indicated above, a Schedule 11 election in respect of quoted securities derived by one group member from another after March 19th, 1968, is only valid if there is a concurrent election by the company making the disposal. However, the power to make such an election is reserved to the principal company of the group and an election given by it is to have effect also as an election by any other company which at that time is a member of the group. In this connection, the 'relevant time' is the first occasion after March 19th, 1968, when any then group member makes a relevant disposal and this then becomes the 'first relevant disposal'.

Nevertheless no right of election arises as regards securities owned by a company which, in some period after March 19th, 1968, and before the relevant time, was not a member of the group if in that period it had made an election for the class in question (individually or through the medium of its then principal company when a member of another group) or had made a disposal of relevant securities without also making an election. These rules apply notwithstanding termination of group membership at any time after the relevant time.

Paragraphs 4 to 7 of Schedule 7 of the Finance Act 1965 set out elaborate rules for preserving the continuity of specified securities which are reorganized in various ways or converted. In particular there may be a transition from non-equities to equities (as in the case of a convertible loan) or *vice versa*. If an owner has elected for one of these classes only, it is the guise in which the disposal is effected which is relevant in deciding whether it is within the scope of a non-plural election.

Where the election does not cover the disposal out of the new holding, but does cover quoted securities of the kind comprised in the original holding, then in computing the gain accruing on the disposal out of the new holding (that is to say, in the absence of an election), the question of what remained undisposed of on any disposal out of the original holding is to be decided on the footing that that earlier disposal was not governed by an election.

In the converse case where an election applies to the new holding only, the question as to how much of the new holding derives from quoted securities held on April 6th, 1965, and how much derives from other securities is to be decided in accordance with the usual 'first-in, first-out' rules.

However, it must be observed that investors are likely to be faced with some difficult decisions in view of the possibility that the precise terms of the foregoing legislation may be subject to modification or even substantial amendment before they reach the statute book.

Reviews

Between the Lines of the Balance Sheet

by Michael Greener, B.A., F.C.A.

Pergamon Press Ltd, London, 35*s*. Paperback 21*s*.

Mr Greener starts his book with the words: 'A balance sheet is not a document specifically designed for the conveying of information', to which one's natural inclination is to ask 'Why not?' To some extent Mr Greener answers this question by showing that despite the inadequacy of its conception and the fact that it was born as a by-product of book-keeping, it is possible to interpret a great deal about a business from the 'average' balance sheet of a U.K. company.

Mr Greener then takes his indifferent material and extracts a tremendous amount from it. He does, in fact, take eight well-known public quoted companies and using four years' figures, compares and contrasts their published figures, using accounting ratios for the purpose. Especially interesting and helpful is a dissertation on the results of revaluing fixed assets in computing percentage return.

The last chapter, which looks ahead to possible reform of company law and includes a discussion on the value and existence of goodwill, is excellent and should make all practising accountants reflect on what they mean when they use the phrase 'true and fair'. As Mr Greener himself puts it: 'Let the accountant put his house in order. Let him shed the myth and the mystery in which he apparently prefers to cloak his accounts and tell that which is true'.

Mr Greener has courage and deserves the widest possible public for a work of tremendous significance. In fact he is to be heartily congratulated on a first-class work which would surely earn him a Ph.D., if the English profession were able to award them.

The Accountant in Management

by R. Ian Tricker, F.C.A., F.C.W.A., J.DIP.M.A.

B. T. Batsford Ltd, London, 84*s*.

Some years ago the author of this book wrote a highly provocative article in *The Sunday Times* on the role of the accountant in management. His thesis was that the traditional role of the accountant was largely outdated. No longer should he be concerned solely with recording the financial affairs of the business, he must take a full part in decision making and he must develop a dynamic view of the business entity.

In his book Mr Tricker expands his thesis at some considerable length – some 420 pages. In the first part he discusses traditional accounting, i.e., both financial accounting and management accounting. This section is basically 'scene setting'. Next, the information needed for proper planning, control and communication is discussed. Various techniques – both quantitative and non-quantitative – which management needs to understand, are dealt with in some detail. In the last section, the author looks at the way the accountant, seen as a member of the management team, can use these techniques to the best advantage of the business.

In a very wide ranging book such as this, some aspects have inevitably not been dealt with in great depth – though a useful comprehensive bibliography at the end goes a good way towards filling this gap. Nevertheless the wealth of information given is very considerable. No one can doubt that the author's main thesis – that the accountant must change to meet the needs of industry today – is other than completely justified, and this book goes a long way in showing how he should go about it.

The book should be useful to all accountants in management – especially those reading for the Joint Diploma in Management Accounting Services. It will also be useful to managers whose range of activities include at least some financial aspects.

Financial Accounting: An Introduction

Management Accounting: An Introduction

by Harold Bierman, Jun., PH.D., and Allan R. Drebin, PH.D., C.P.A.

The Macmillan Company, New York; Collier-Macmillan Ltd, London. 48*s* each.

In the first of these two books, the authors have managed to write an introductory textbook on accounting in an adult manner in a way that does not patronize the reader but which, at the same time, presents accounting techniques from the very simplest terms with clarity and interest.

In some 400 pages the examples progress to the point of inter-company investment and financial analysis, but such is the clarity of exposition that the average student will not feel the speed of progress too great.

Care is taken to explain at the beginning of the book the necessary background of commercial and financial procedures and the initial starting point in the study of balance sheet entries, for example, takes a realistic and appropriate illustration instead of the too common, over-simplified balance sheet which orthodox textbooks regard as all that a student can appreciate.

One feels that the approach adopted by the authors reflects truly the improving scholastic attainment of new entrants to the profession at a time when the trend towards increasing intake of university graduates is being advocated throughout the world by major accountancy bodies.

In the second book the authors take as their starting point, as any management accountant would expect, an analysis of cost incidence, presented both graphically and by figure illustration so as to indicate clearly from the outset, basis of policy decisions and the effect of variations therefrom. The mechanics of cost accumulation are not ignored and share their clarity with their companion volume already referred to.

A comprehensive study of budgetary control leads into a study of standard costs systems and a lucid explanation of the analysis of cost variances. Marginal costing, under the guise of 'direct costing' is shown as a means to effective management decisions and is followed by an important chapter on volume-profit analysis.

Among the sections dealing with management control is a valuable summary of methods of inventory control while the problems and techniques in measuring and reporting performance of the organization are presented in a practical manner. Of particular interest to many readers will be the chapters on price changes and accounting in relation to changing price levels.

Principles of Accounting: A Managerial Approach

by ROBERT E. SEILER.

Charles E. Merrill Books Inc., Columbus, Ohio;
Prentice-Hall International, London, 74*s*.

This book – running to some 850 pages – has been prepared as a teaching text for use as an introduction to college and university courses in accounting. Essentially the idea has been to provide students with a comprehensive programme, containing the necessary coverage of management accounting topics, without neglecting the financial aspects of accounting.

The book is in two sections. The first covers the measurement of income, the statement of the financial position, preparation of funds flow statements, and the analysis of accounts using ratios. The author explains the principles in a lucid manner, and has appended a number of questions to each chapter. It is unfortunate, however, that there are no suggested answers for those students who work without a tutor.

The second section considers the provision of information for management and has the customary chapters on the treatment of costing, standard costing, cost-benefit-volume relationships, budgets, budgetary control and capital expenditure decisions. There is also an interesting chapter on quantitative decision techniques, with applications of probability theory and the normal curve.

Teachers of accountancy will find this to be a sound, clear exposition of accounting principles, with a number of practice questions.

Cost Accounting

Fourth edition by A. MATZ, PH.D., O. J. CURRY, PH.D., and G. W. FRANK, M.B.A., C.P.A.

South Western Publishing Co, Cincinnati, Ohio; Edward Arnold (Publishers) Ltd, London, 45*s*.

Starting from a consideration of the contribution of cost accounting to management, this book proceeds to the classification of costs, the collection of data through cost centres, and cost of materials.

Process costing, average, FIFO and LIFO costing are considered; then planning by budgets, including variance analysis and flexible budgets, which leads logically into a consideration of the control process by means of standard costs, control through managerial responsibility, the use of direct and absorption costing. Finally, there is a section on analytical processes, including distribution costs and differential analysis.

The setting of standards for standard costing is outlined quite fully; the question, however, as to how one is to ensure that such standards achieve a reasonable level of capacity is largely unanswered. The reliance on time and work study (or time and motion study) based on average past experience is, in fact, questioned by many in this area as providing an insufficient test and thus an inadequate standard. However, the authors are quite right in insisting, as they do, that too high a standard will merely act as a discouragement to effort, and there is a temptation to accept the 'average standard' as valid for this reason, subject only to reference to such inter-firm comparisons as may be available, especially on wages tied to productivity.

Financial controllers who find themselves weak on systems, as well as students for professional examinations (including the Joint Diploma), should find this book – though written from a North American viewpoint – of considerable value.

SHORTER NOTICES

DAYES' HANDY BOOK OF SOLICITORS' COSTS, *tenth edition* by R. W. E. Ranger. Sweet & Maxwell Ltd, London, 45*s*. This new edition brings the matter of solicitors' costs up to date by covering the practice under the revised rules of the Supreme Court which came into operation on October 1st, 1966, and the Bankruptcy (Amendments) Rules 1967. The author is a principal clerk in the Supreme Court Taxing Office, which certainly equips him with good qualifications for producing a work of this nature.

BUCKLEY ON THE COMPANIES ACT, *Second* (*Cumulative*) *Supplement to thirteenth edition* by G. Brian Parker, M.A., LL.B., assisted by Martin Buckley, B.A., Barristers-at-Law. Butterworth & Co (Publishers) Ltd, London 37*s* 6*d*. This new supplement to *Buckley* deals, *inter alia*, with the changes effected by the Companies Act 1967 together with the changes in the Stock Exchange requirements for quotation. In fact, every material change in the law down to October 31st, 1967, has been included, and it would be a bold man, indeed, who embarked upon the hazards of advising on company law without having *Buckley* to hand, with this supplement.

ALPHABETICAL GUIDE TO STAMP DUTIES, 1967–68, edited by J. W. Pryke, Butterworth & Co (Publishers) Ltd, London 20*s*. This second edition of a handy little volume incorporates the changes of duty affected by the Finance Act 1967. The more recherché problems of stamp duty law find no place here, but the book gives a very clear summary of the duties payable and of the simpler exemptions.

RECENT PUBLICATIONS

TUDOR ON CHARITIES, sixth edition by the late Douglas H. McMullen, Spencer G. Maurice, and David B. Parker. lxvii+755 pp. 10×6. 10 gns. Sweet & Maxwell Ltd, London.

SPICER & PEGLER'S PRACTICAL BOOK-KEEPING AND COMMERCIAL KNOWLEDGE, thirteenth edition by W. W. Bigg, F.C.A., and R. E. G. Perrins, A.C.A. xvi+508 pp. 9×5½. H.F.L. (Publishers) Ltd, London.

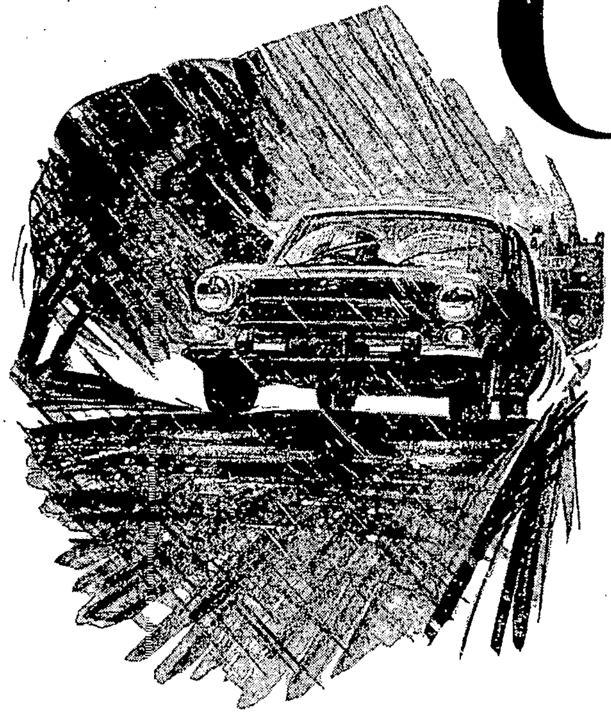
THE TAXATION OF CAPITAL GAINS, by Theodore John Sophian, supplement to second edition. 10×6. 22*s* 6*d*, complete price of main work and supplement 110*s*. Butterworth & Co (Publishers) Ltd, London.

THE EXPORTERS, by Douglas Tookey, Eleanor Lea and Camilla McDougall. xx+130 pp. 9×6. Card covers 21*s*. Ashridge Management College, Berkhamsted, Herts.

These books may be obtained from, or through, Gee & Co (Publishers) Ltd, The City Library, 151 Strand, London WC2.

From Shield Factors' Files

The Cheque that had to be Chased



"Can I see you a minute, Mr. Ambrose?"

A rather worried-looking Miss Bunting put her head round the door.

"Of course, Miss Bunting! What can I do for you?"

Jack Ambrose, the only working director of Ambrose Autocessories Ltd., put on his happy, hearty, boss-face but had a nasty feeling he knew what her next words would be. And he was right.

"It's Thursday and the Pettiford cheque hasn't arrived, Mr. Ambrose. I've been on to them but just get put through from one department to another."

"I see" said Jack Ambrose, thoughtfully. But of course he did not "see" at all. The fact was that they relied on getting the Pettiford cheque each Thursday to pay the week's wages. If it didn't arrive in time . . .

"I'll give Mr. Pettiford a ring. Leave it to me, Miss Bunting" he said, exuding a confidence he certainly didn't feel.

* * *

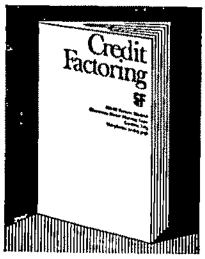
Time passed. After several calls and a lot of "holding the line" he'd done no better than Miss Bunting had. There was only one thing for it. He'd have to drive over there. A miserable journey, in pouring rain, and several hours completely taken out of his day. It was a damp, depressed director who arrived at Pettiford's—to find his invoice had gone astray but had since been traced, and they'd shortly have his cheque ready for him.

"This sort of thing must crop up all the time with small firms" he reflected, as he drove back through the relentless rain. "Better have a word with that accountant chap. There must be an easier way than this."

* * *

He was right. His accountant told him about Shield Factors' service which gives manufacturers and merchants an assured cash in-flow, the amount depending only on their sales. There are other benefits, too. As a Shield client, Jack Ambrose need never have another bad debt. He has been saved the cost and bother of ledger keeping, debt collection and account rendering. He can have access to additional finance when he needs it. And freed from his "Black Thursday" bogey he can spend all his time on production and sales—the job he's really in business for!

* * *



* Details of Shield service are given in this booklet: "Credit Factoring", a copy of which is waiting for you. Write or 'phone (asking for Mr. F. R. Salinger or for Mr. E. S. Davis) and it will be sent to you by return.

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Finance and Commerce

Capper-Neill

IN the 1967–68 report of Capper-Neill Ltd there seems to be a running battle between the urgency of the chairman's report and the flatness of the presentation of the figures. 'Results at a glance' is the only attempt at presenting a record of financial statistics and the reader, although told in the directors' report that aggregate export sales were £360,309 during the year, has to go nine pages farther on to find the turnover figure in Note 6 to the accounts.

As the directors' report states, the principal activities of the Capper-Neill Group are the design, manufacture and erection of process plant and pipework for industry. But towards the end of the financial year under review interests were acquired in the manufacture of bottling and mechanical handling equipment for the dairy, brewing and soft-drinks industries, and in industrial refrigeration.

This expansion is considered to offer a complementary service with valuable potential in both home and export markets. The development made no contribution to profits in 1967–68. Neither, it may be added with reference to the exports figure already quoted, did last year's 'energetic efforts' to increase direct exports – not, it must be said, an easy achievement in this industry.

Export orders

This year, however, should see a substantial increase, and orders received from Kuwait and Iran in recent months have been worth over £1·6 million. In the past year, and subsequently, there has been very considerable rationalization and switching of production.

One major acquisition last year was of United Dairies' U.D.E.C. subsidiary's bottling, mechanical handling and industrial refrigeration interests at Park Royal, London, and the transfer of them to St Helens, Lancs. Extensive rationalization of design and fabricating activities at St Helens is also under way. In this sphere, group customers are the oil, gas and chemical industries, and East Coast storage tank contracts for Lindsey Oil Refinery and Continental Oil (U.K.) combined are worth £2·2 million.

There is, as the new chairman, Mr W. P. Capper, comments, much current talk of rationalization of the process plant industry, and the Industrial Reorganization Corporation has already participated in moves in that direction. Mr Capper expects further mergers and acquisitions in the process plant sphere this year, and he tells shareholders

CAPPER-NEILL LIMITED

BALANCE SHEET
as at 31st March 1968

	Notes	1967/68 £	£	1966/67 £	£
Capital Employed					
Ordinary Shares	9		1,015,242		922,947
Share Premium Account	10	898,815		304,943	
General Reserve		1,350,000		1,125,000	
Exceptional Depreciation Reserve		73,000		73,000	
Dad Bebts Reserve	12	47,366		54,968	
Profit and Loss Account		218,214		211,699	
			2,587,395		1,769,610
Total Capital Employed			3,602,637		2,692,557
Represented by:					
Fixed Assets	20		478,873		414,223
Investments	15		160,528		117,195
Shares in Subsidiary Companies	21		1,485,300		1,475,290
Current Assets					
Current Accounts (with Subsidiary Companies)		490,628		429,280	
Sundry Debtors and Prepayments		48,139		532	
Cash at Bank and in Hand		1,181,342		479,634	
		1,720,109		909,446	
Current Liabilities					
Sundry Creditors and Accrued Charges		75,296		56,331	
Corporation Tax	22	4,438		47,283	
Proposed Dividend	18	162,439		119,983	
		242,173		223,597	
Net Current Assets			1,477,936		685,849
			3,602,637		2,692,557

Directors
W. P. Capper
J. Laithwaite

THE CAPPER-NEILL GROUP

RESULTS AT A GLANCE

	1967/68 £	1966/67 £	1965/66 £	1964/65 Corresponding Period £
Group Profit (before Tax)	956,092	862,480	651,815	216,682
Tax	404,174	329,013	233,054	103,068
Group Profit (after Tax)	567,063	543,392	418,761	113,614
Dividends	32%	25%	25%	20⅝% See note below
Capital Employed	3,898,965	2,921,117	2,143,865	1,909,303

Note: The dividend 20⅝ per cent. year 1964–65 was paid on the capital in issue prior to the merger with the Capper Group.

THE CAPPER-NEILL GROUP

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 1968

	Notes	1967/68 £	£	1966/67 £	£
Group Trading Profit			1,253,913		1,061,862
Add					
Income from Investments and House Property	1	6,269		7,415	
Depreciation no Longer Required		534		598	
			6,803		8,013
			1,260,716		**1,069,875**
Deduct					
Emoluments of Directors of Holding Company	2	93,064		60,436	
Depreciation		143,058		103,655	
Contributions to Pension Scheme		43,297		29,507	
Interest Payable	3	25,205		13,797	
			304,624		207,395
Group Profit before Taxation			**956,092**		**862,480**
Add					
Investment Grants			15,145		9,925
			971,237		**872,405**
Taxation	4		404,174		329,013
Group Profit after Taxation			**567,063**		**543,392**
Deduct					
Minority Interests			13,401		17,474
			553,662		**525,918**
Deduct					
Amounts retained by Subsidiaries			13,772		18,629
Net Profit of Capper-Neill Ltd.			**539,890**		**507,289**
Add					
Balance brought forward			211,699		209,787
Capital Profit on Sale of Assets less taxation thereon			8,232		—
Taxation over provided in earlier years			6,003		—
Available for Distribution			**765,824**		**717,076**
Dividends, Paid or Proposed					
Interim of 16% gross (12%)		147,671		110,394	
Final of 16% gross (13%)		162,439		119,983	
32% (25%)		**310,110**		**230,377**	
Exceptional expenditure	5	12,500		—	
Transfer to General Reserve		225,000		275,000	
			547,610		505,377
Amount Carried Forward			**218,214**		**211,699**

CONSOLIDATED BALANCE SHEET AS AT 31st MARCH 1968

	Notes	1967/68 £	£	1966/67 £	£
Capital Employed					
Ordinary Shares	9		1,015,242		922,947
Share Premium Account	10	898,815		304,943	
General Reserve		1,350,000		1,125,000	
Exceptional Depreciation Reserve		73,000		73,000	
Investment Grants Account	11	126,781		74,699	
Dad Debts Reserve	12	47,366		54,968	
Profit and Loss Account	13	272,117		255,697	
			2,768,079		1,888,307
Total Capital and Reserves			**3,783,321**		**2,811,254**
Unsecured Loan of a Subsidiary Company	3	40,800		48,800	
Interest of Minority Shareholders of a Subsidiary Company		74,844		61,063	
			115,644		109,863
Total Capital Employed			**3,898,965**		**2,921,117**
Represented by:					
Fixed Assets	14		1,634,372		1,337,385
Goodwill, Patents, Trade Marks			38,610		—
Investments	15		161,128		117,795
Premiums (net) on acquisition of Subsidiary Companies			52,391		50,873
Current Assets					
Stock	16	499,803		310,966	
Work in progress	16	832,160		368,427	
Investment Grants receivable		124,412		84,624	
Sundry Debtors and Prepayments		2,940,994		3,542,170	
Cash at Bank and in hand		389,393		3,419	
		4,786,762		**4,309,606**	
Current Liabilities					
Sundry Creditors and Accrued Charges		1,984,352		2,012,946	
Corporation Tax	17	592,747		535,773	
Bank Overdrafts		34,760		225,840	
Proposed Dividend	18	162,439		119,983	
		2,774,298		**2,894,542**	
Net Current Assets			2,012,464		1,415,064
			3,898,965		**2,921,117**

Directors
W. P. Capper
J. Laithwaite

NOTES ON ACCOUNTS

	1968 £		1967 £	
1 Investment Income				
The income for the year was divided as follows:				
Quoted Investments (all Franked Investment Income)		960		684
Unquoted Investments including Rental Income		5,309		6,731
		6,269		**7,415**
2 Directors' Emoluments and Pensions				
Fees as Directors		692		700
Management Remuneration		92,372		59,736
		93,064		**60,436**
Pension Contributions		8,116		8,116
Detailed Particulars				
Chairman's Emoluments				
(Period 1:4:67 to 28:2:68)		7,448		
(Period 29:2:68 to 31:3:68)		2,372		
Emoluments of highest paid Director		28,577		
Other Directors' Emoluments		**Number**		
£10,000–£12,500:		Three		
£17,500–£20,000:		One		
3 Interest Payable on Loans				
Loans repayable within five years and on Bank Overdrafts		24,294		9,803
Loan not repayable within five years		911		3,994
		25,205		**13,797**
£14,000 of the unsecured loan of a Subsidiary Company is repayable over a period of more than 5 years by annual instalments of £2,000 bearing interest at 6¾%				
4 Taxation				
United Kingdom Corporation Tax at 42½% (40%)		**404,174**		**329,013**
5 Exceptional Expenditure				
The amount of £12,500 was paid in full settlement of the claim for £38,006. 18s. 9d. to which reference was made in note 9 of last year's Accounts				
6 Turnover				
Turnover is the net amount resulting from sales to third parties		**10,252,181**		**10,387,881**
7 Hire of Plant and Machinery		**344,631**		**314,866**
8 Auditors' Remuneration		**4,000**		**3,500**
9 Ordinary Share Capital				
Authorised				
12,500,000 Shares of 2/– each		1,250,000		1,000,000
Issued: At 31 March 1967				
9,229,468 Shares of 2/– each		922,947		836,315
Issued and Allotted during the year				
922,947 Shares of 2/– each		92,295		86,632
At 31 March 1968				
10,152,415 Shares of 2/– each		**1,015,242**		**922,947**
10 Share Premium Account				
Opening balance		304,943		—
Premium of 13/– per Share on 922,947 Shares issued during the year	599,916		313,618	
Less:				
Expense of Issue	6,044	593,872	8,675	304,943
		898,815		**304,943**
11 Investment Grants Account				
The Directors consider that items of capital expenditure upon which grants are due should be shown at their gross cost on the Group Balance Sheet and that a capital reserve be credited with the amount of the grants. It is intended to apportion the amount of these grants over the anticipated life of the assets and to transfer the appropriate proportion to Profit and Loss Account in each year. The amount shown is as follows:				
Opening balance		74,699		—
Grants due for the year		67,227		84,624
		141,926		84,624
Less				
Transfer to Profit and Loss Account		15,145		9,925
		126,781		**74,699**
12 Bad Debts Reserve Account				
Opening balance		54,968		54,968
Utilised during the year		7,602		—
		47,366		**54,968**
13 Profit and Loss Account				
The balance shown on the Consolidated Balance Sheet is arrived at after deducting £5,080 tax relating to earlier years for Subsidiary Companies				

that their board 'is constantly alert to any opportunity which would be compatible with our spread of activities'. Rationalization of the main fabricating units has left Capper-Neill well prepared to absorb new additions to the group.

'Local distortion'

Mr Capper's statement with the accounts is an urgent affair but in it there are some clear indications and pointers to the degree of internal control maintained in the organization. The board, for example, says Mr Capper, were disappointed in the final 1967–68 result, even though profits were up on the previous year.

The final results, however, were held back by events in the final quarter. Towards the end of that period it 'became evident that it would be prudent to make provision for possible losses by one of our contracting divisions at certain of its major sites'. This possibility, Mr Capper says, 'was signalled by our routine control systems, but an earlier warning would have been received had there not been a local distortion of information on the progress of the relevant contracts'.

Shareholders are told that the necessary steps were taken immediately and this division is now expected to operate profitably. That control systems 'spotted' the losses despite 'local distortion' points to sound control systems so necessary in the contracting industry.

Maintenance of such systems will become increasingly important as the group expands, as it undoubtedly will through both integral growth and through new acquisitions.

Timing

WHEN the company reporting season is at its height it is interesting to see, by comparison of timing, the leaders and the laggards in company reporting. On June 13th, for example, Courtaulds Ltd issued their full report for the financial year to the previous March 31st.

Six weeks from the end of the financial year to the issue of the full accounts is decidedly good going in a group with annual sales of £394 million, employed capital

NOTES ON ACCOUNTS

14 Fixed Assets (Group)

(a) Land and Buildings	1968 Freehold £	Long Leasehold £	Short Leases £	1967 Freehold £	Long Leasehold £	Short Leases £
Opening balance	593,949	45,780	30,508	412,345	49,155	28,186
Less						
Disposals at Cost	—	1,215	—	—	3,375	970
	593,949	**44,565**	**30,508**	**412,345**	**45,780**	**27,216**
Additions during the year	72,664	—	14,842	181,604	—	3,292
	666,613	**44,565**	**45,350**	**593,949**	**45,780**	**30,508**
Less						
Depreciation Opening balance	62,228	14,236	12,037	58,051	14,030	9,953
Adjustments re disposals	—	532	—	—	1,063	27
	62,228	**13,704**	**12,037**	**58,051**	**12,967**	**9,926**
Depreciation for 1968	6,083	1,016	3,762	4,177	1,269	2,111
Accumulated Depreciation	**68,311**	**14,720**	**15,799**	**62,228**	**14,236**	**12,037**
Cost less Depreciation	**598,302**	**29,845**	**29,551**	**531,721**	**31,544**	**18,471**

(b) Plant and Machinery, etc.	Plant & Machinery £	Fixtures £	Motor Vehicles £	Patterns £	Plant & Machinery £	Fixtures £	Motor Vehicles £	Patterns £
Opening balance	985,642	106,871	162,576	3,872	765,269	90,495	127,940	3,259
Less								
Disposals during the year at cost	33,666	272	29,974	—	47,171	643	26,751	1,120
	951,976	106,599	132,602	3,872	718,098	89,852	101,189	2,139
Additions during the year	261,687	14,740	69,965	2,658	267,544	17,019	61,387	1,733
	1,213,663	**121,339**	**202,567**	**6,530**	**985,642**	**106,871**	**162,576**	**3,872**
Less								
Depreciation opening balance	374,868	30,952	68,342	1,358	337,615	27,084	59,280	1,103
Adjustment re disposals during the year	25,178	31	20,433	—	37,998	220	12,629	1,120
	349,690	30,921	47,909	1,358	299,617	26,864	46,651	(17)
Add								
Depreciation for 1968	94,759	5,330	32,017	1,280	75,251	4,088	21,691	1,375
Accumulated Depreciation	**444,449**	**36,251**	**79,926**	**2,638**	**374,868**	**30,952**	**68,342**	**1,358**
Cost less depreciation at 31st March 1968	**769,214**	**85,088**	**122,641**	**3,892**	**610,774**	**75,919**	**94,234**	**2,514**
Less								
Deferred purchase	4,161				27,792			
As per Balance Sheet	**765,053**	**85,088**	**122,641**	**3,892**	**582,982**	**75,919**	**94,234**	**2,514**

15 Investments—At Cost

	1968 £	1967 £
(a) Quoted Investments: All on recognised Stock Exchanges in Great Britain Market Value £56,887: (Last year £9,600)	57,584	12,584
(b) Trade Investments	90,139	91,236
(c) Mortgages to Employees	12,805	13,375
Total Parent Company	**160,528**	**117,195**
(d) Deposits held by Subsidiary Company	600	600
	161,128	**117,795**

The Trade Investments include holdings of Ordinary Shares in: International Tank & Pipe (SAK) incorporated Kuwait (49%) S.A. Microdot-Varec N.V., incorporated Belgium (49%) Norman Sinclair Ltd, incorporated U.K. (15%) and the value given above is representative of the actual net asset values (attributable proportion) disclosed by recent accounts of the companies in question

16 Stock and Work in Progress

Stocks are valued on the basis of cost or realisable value, whichever is the lower, and Work in Progress at cost or realisable value.

17 Corporation Tax

	1968 £	1967 £
Due and payable on 1st January 1969	401,592	329,013
Due for earlier years	191,155	206,760

18 Proposed Ordinary Dividend

Of the gross sum of £162,439 16% (1967 £119,983 13%) shareholders will receive £95,433 (£70,490) and the balance of £67,006 (£49,493) will be paid over to the Inland Revenue

19 Capital Commitments

Outstanding commitments for capital expenditure which have not as yet been provided for in the Accounts are £17,000 (1967 £60,000). The aggregate amount of capital expenditure authorised by the Directors but not yet contracted for is £202,000

20 Fixed Assets (Parent)

Land and Buildings	1968 Freehold £	Long Leasehold £	1967 Freehold £	Long Leasehold £
Opening balance	420,289	43,872	254,948	47,247
Less				
Disposals at Cost	—	1,215	—	3,375
	420,289	**42,657**	**254,948**	**43,872**
Additions during the year	70,935	—	165,341	—
	491,224	**42,657**	**420,289**	**43,872**
Less				
Depreciation—Opening Balance at 1st April 1967	35,786	14,152	33,119	13,942
Adjustments re disposals	—	533	—	1,062
	35,786	**13,619**	**33,119**	**12,880**
Depreciation for 1968	4,605	998	2,667	1,272
Accumulated Depreciation	**40,391**	**14,617**	**35,786**	**14,152**
Cost less Depreciation	**450,833**	**28,040**	**384,503**	**29,720**

21 Investments in Subsidiary Companies

A schedule is shown on page 17 giving details of the principal companies concerned *[Not reproduced]*

	1968 £	1967 £
Shares at cost	995,984	985,974
Shares at Nominal Value of shares issued as purchase consideration	489,316	489,316
	1,485,300	**1,475,290**

22 Corporation Tax

	1968 £	1967 £
Due and payable 1st January 1969	4,438	1,941
Due for earlier years	—	45,312

of £357 million, and literally dozens of subsidiaries operating in the U.K. and abroad.

On the same day a number of smaller companies were merely reporting preliminary figures for the year to March – some, even, for the year to December 1967 – and a study of the company news pages in the financial Press leads to the conclusion, not rare admittedly, that the later the figures are announced the worse they are in character.

The prize example, in fact, came from the Lancashire and Yorkshire Tulketh Group which reported a pre-tax loss for the half-year to September 1967. But with remarkable acumen the directors were apparently able to 'forecast' that results for the full year to March 1968 would justify maintenance of a 4 per cent dividend and that 1968–69 results would indeed justify a payment of 'the usual 17½ per cent'. How 17½ per cent becomes usual after two years at 4 per cent and just why it should take eight and a half months to produce six months' figures is left to the imagination.

CITY NOTES

THE catalogue of doubts concerning the immediate economic future is beginning to lead to doubts as to whether time will allow Britain to get away with the promise of economic recovery to come. But for the French collapse the British economy, and sterling with it, could probably have ridden out the summer of economic discontent.

But because of the French situation, coming on top of the earlier French onslaught against sterling and the dollar, the fear is that time will run out in one sense before time works favourably in another sense, later. Even the official view is that the next few months will not show any great improvement in trade or balance of payment figures and if, in that period, pressure on sterling continues – or if the franc fails – then improvement in trade figures may prove to have come too late. That will particularly be so if the economy is still subjected to the strains imposed by industrial action.

This is the situation that the stock-market is currently trying to assess. How it is being assessed is shown predominantly in the gilt-edged market, and to a lesser degree in equities where unit trust money, in particular, is bolstering what would probably otherwise be uncertain if not dull conditions.

There is currently an economic race against time but so far as the U.K. economy is concerned it is a race penalized at the start by the prodigal waste of time immediately after devaluation.

* * * *

THE present clamour on the question of 'reform of the City' is essentially an argument between vindictiveness and righteous indignation. Throwing stones in glass-houses is proverbially a dangerous exercise and righteous indignation is akin to pride going before a fall. Neither side in the argument has a monopoly of truth, and not everyone on the righteous indignation side would agree that a peculiar jigsaw of Companies Act, Board of Trade, Stock Exchange and gentlemen's agreements is the ideal pattern for the professional management of the affairs either of the City or of the companies in which it is closely concerned.

The basis of the trouble is that within the City there are bodies with powers that are too infrequently used and others with principles but not the power of enforcement.

RATES AND PRICES

Closing prices, Tuesday, July 2nd, 1968

Tax Reserve Certificates: (29.11.67) Companies 4⅜%; 3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966	7%	Oct. 19, 1967	6%
Jan. 26, 1967	6½%	Nov. 9, 1967	6½%
Mar. 16, 1967	6%	Nov. 18, 1967	8%
May 4, 1967	5½%	Mar. 21, 1968	7½%

Money Rates

Day to day ..	5⅞–7¼%	*Bank Bills*	
7 days	5⅞–7¼%	2 months ..	7⅝–7 11/16%
Fine Trade Bills		3 months ..	7⅝–7 11/16%
3 months ..	8½–9%	4 months ..	7⅝–7 11/16%
4 months ..	8½–9¼%	6 months ..	7⅝–7¾%
6 months ..	8¾–9½%		

Treasury Bills

April 26 ..	£7	1*s*	7·21*d*%	May 31 ..	£7	4*s*	9·88*d*%
May 3 ..	£7	1*s*	10·11*d*%	June 7 ..	£7	4*s*	3·30*d*%
May 10 ..	£7	1*s*	7·13*d*%	June 14 ..	£7	3*s*	9·58*d*%
May 17 ..	£7	2*s*	4·09*d*%	June 21 ..	£7	3*s*	8·57*d*%
May 24 ..	£7	4*s*	0·76*d*%	June 28 ..	£7	4*s*	10·04*d*%

Foreign Exchanges

New York	2·38⅜	Frankfurt ..	9·53 9/32
Montreal	2·56 7/16	Milan	1483½
Amsterdam ..	8·62⅝	Oslo	17·02¼
Brussels	119·00	Paris	11·84
Copenhagen ..	17·86	Zürich	10·23¾

Gilt-edged

As well as the usual prices quoted at the close of business on press day, we also give below the quarter-end prices.

	June 28th 1968	*July 2nd 1968*		*June 28th 1968*	*July 2nd 1968*
Consols 4%	51⅛xd	51⅛	Funding 6% 1993	81	81 3/16
Consols 2½%	32¼xd	32 5/16	Savings 3% 60–70	90 9/32	90¼
Conversion 3½%	46⅛	46⅛	Savings 3% 65–75	74⅛	74 9/16
Conversion 5% 1971	92 5/16xd	92¼	Treasury 6½% 1976	95⅝	95¾
Conversion 5¼% 1974	88	88⅛	Treasury 3½% 77–80	70⅛	70 3/16
Conversion 6% 1972	93 13/16	93 13/16	Treasury 3½% 79–81	68¼	68 3/16
Funding 3½% 99–04	49⅞	49 15/16	Treasury 5% 86–89	72	72 1/16
Funding 4% 60–90	94¼	94⅜	Treasury 5½% 08–12	73¼	73⅜
Funding 5¼% 78–80	79⅝	79¾	Treasury 2½%	32¾	32⅞
Funding 5½% 82–84	78½xd	78⅝	Victory 4%	95½	95⅜
Funding 5¾% 87–91	78⅞	79	War Loan 3½%	45¼	45 5/16

FOR STUDENTS

Incomplete Records

THE term 'incomplete records' in accounting vocabulary denotes the lack of double-entry records. Such records as may be available may take a number of forms; however, the questions set by examiners are designed to test a candidate's knowledge of double-entry principles which must be fully understood before a trading and profit and loss account for the period, together with a balance sheet, can be prepared.

Until double-entry is fully understood and considerable practice has been undertaken, all adjustments necessary to arrive at the income (sales) or expenditure (purchases and expenses) for transfer to the trading and profit and loss account should be carried out in accounting form, namely in T account form. Students should be fully conversant as to how the various figures are arrived at, in particular how purchases and sales are built up from the particulars given by the examiners. It is imperative that students know why the adjustments are carried out, and these will be explained below as they arise.

Bank account

Examiners, in almost every question of this type, give a bank account in summary form, together with the assets and liabilities at the commencement and at the end of the period; but the opening and closing bank balances are omitted since these are in the summary bank account. This factor is very important since the opening capital – being the difference between assets (what you have) and liabilities (outside claims against those assets) – will be incorrect unless one takes into account the opening balances on the bank account. It is suggested that a commencement is made by calculating purchases and sales, proceeding as follows:

The bank account given in a question usually has, by way of a receipt, a figure for cash sales or receipts on account of credit sales or both. These form the basis of the first credit entry in the sales account; the bank has been debited and since this is for goods sold it forms the credit entry in the sales account, viz:

(1) *Bank Account*

Sales £x	

(2) *Sales Account*

	Bank £x

One now has to ascertain whether the proprietor has banked all moneys received from cash sales or on account of credit sales; invariably it will be found that all the cash received has *not* been banked but amounts received have been used to meet certain expenses – i.e. wages, cash purchases, and retentions by the proprietor himself. If these sums had been banked the bank account would have been debited, but of course the same amount would have been paid out, and would have been credited to the bank account. The double entries would have been:

Credit Sales Account – with the sums used from receipts not banked. (The debit would have been to the bank account.)

Debit –

Wages Account Purchases Account Drawings Account	with the sums used and not banked. (The credit would have been to the bank account.)

It can now be seen that the bank account has a debit and credit for the same amount – therefore we can leave out this altogether from the bank account and put one entry through by credit to sales account and a debit to each of the wages, purchases and drawings accounts. These three debit entries will equal the amount credited to sales account.

The position now arrived at is as follows:

Sales Account

		Bank	£x
		Wages account ..	£x
		Purchases account	£x
		Drawings account	£x

Wages Account

Sales account ..	£x		

Purchases Account

Sales account ..	£x		

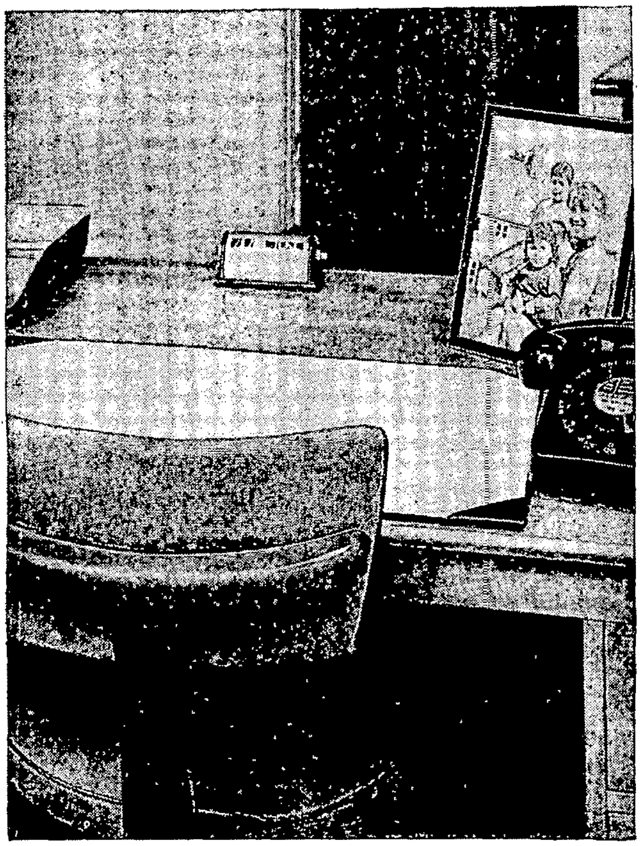
Drawings Account

Sales account ..	£x		

What has been done is to increase sales by the cash received for sales or on account of credit sales, and on the other side to charge the accounts for wages etc. with the amounts applicable thereto paid out of the receipts – namely 'Increased debits' – 'Increased credits'.

Debtors

The next matter requiring attention is to ascertain from the question the amount owing by debtors at the commencement of the period – this amount will be an asset at



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____

COMPANY NAME ________________

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that date and what has been received during the period and includes sums on account of credit sales (which will include amounts received on account of debts outstanding at the commencement of the period). Now transfer the figure for opening debtors to the debit of sales account; this reduces the amounts received to those which relate to the year under review.

This is only part of the position because the sales account still only gives the cash received during the period for sales; therefore, to arrive at the total sales for the period one must credit the sales account with closing debtors, i.e. those outstanding at the end of the period, and debit debtors account.

Let us now look at what has been done in a simple way: suppose one commenced business and sold goods during the first week for £1,020 (£1,000 for cash and £20 on credit). The only entry (if the books are not kept on double-entry principles) is the debit to bank account of £1,000 (assuming it has been banked). In preparing a set of accounts one would credit this to sales account; but the actual sales were £1,020 since £20 was sold on credit, so to put the position right, one credits sales account and debits debtors account with £20; now there are sales of £1,020. This is exactly what has been carried out earlier. If there is cash in hand which has *not* been banked, one also credits sales account and debits cash in hand, since this amount is a sum received on account of sales not banked.

Purchases

The next procedure is to arrive at the figure of purchases. In the first place, purchases account is debited with the payment to trade creditors from the credit side of the bank account. (*Note:* Purchase accounts will have been opened and debited with cash purchases.) Next, one takes the figure of opening creditors as given in the question and transfers it to the credit of purchases account (this is because, of the amounts paid in the period, part is in payment of the opening creditors which were taken into consideration last year). Now in the purchases account one has a figure representing what was paid for goods received in the current period. This, however, is not the total cost of purchases of the period, since some have been on credit. To arrive at the total figure one debits purchases account and credits creditors account with the sums owing by the business at the end of the period.

If the creditors had allowed discounts for payment on due dates, then what has been paid is really less than what would have been paid if no discounts had been allowed.

A discount does not, of course, reduce the true cost of goods but is rather an allowance received for early payment of the bill for the goods. This is given effect to by debiting purchases account and crediting the discounts received account with the discount the creditors have allowed.

For example, if goods cost £800, and for early payment the creditor allows a discount of £30, the goods themselves still cost £800 and the allowance of £30 is a profit to the business. The resulting profit or loss on trading is not affected, but only the *gross profit* as shown at the top of the next column.

TRADING AND PROFIT AND LOSS ACCOUNT

*Purchases	£x	Sales	£x
Gross profit c/d	x		
		Gross profit b/d	£x
		Discounts received	x

*The full cost – in the example, £800.

The payments on the credit side of the bank account are again perused and those not accounted for are debited to the particular expense account, asset account or drawings account which is applicable.

The next procedure is to adjust the expense accounts by any sums owing or prepaid at the commencement of the year and at the end of the year. All is now ready for the preparation of the trading and profit and loss account and balance sheet from the accounts that have been opened.

The rest of the opening balances not taken into consideration should largely consist of fixed assets and stock. Stock will be cleared by transfer to trading account. Where the fixed assets are less at the end of the period than at the beginning, the loss in value (depreciation) is debited to trading and profit and loss account after arriving at the figure of *gross profit*

The following question is one taken from a book-keeping examination paper of The Institute of Chartered Accountants in England and Wales. From the answer students may find it a useful exercise to follow through the double entry, and to trace each account to the trading and profit and loss account and balance sheet.

Question

A. Wren received a legacy from his uncle amounting to £2,500. He decided to purchase a small retail business from S. Sparrow for the sum of £2,012. The purchase price was made up as follows: lease £400, fixtures and fittings £500, stock £512 and goodwill £600.

He received his legacy on June 30th, 1964, with which he opened a bank account. On the same date he paid over the agreed amount to Sparrow, and commenced trading on July 1st, 1964.

Other than bank statements, receipts and vouchers, the only record he kept was a small notebook recording cash payments from the till. Surplus cash was paid into the bank when convenient. He had no other income than from the business.

A summary of the payments in his notebook for the year ended June 30th, 1965, shows:

	£
Staff wages	312
Shop expenses	115
Personal drawings	563
Sundry purchases for resale.	95

The following is a summary of his bank account for the year ended June 30th, 1965:

Deposits:	£	Cheques drawn:	£
Legacy	2,500	S. Sparrow	2,012
Other bankings	11,053	Purchases for resale	9,660
		Rent, fifteen months to September 30th, 1965	200
		Rates, nine months to March 31st, 1965	90
		Heat and light	45
		Display counter	50
		Balance	1,496
	£13,553		£13,553

On June 30th, 1965, cash in hand amounted to £26. Stock, valued at cost, amounted to £958, and there were amounts due from customers of £96.

The following accounts were outstanding:

	£
Purchases	506
Electricity	15
Rates for year ending March 31st, 1966	132

You are required to prepare A. Wren's Trading and Profit and Loss Accounts for the year ended June 30th, 1965, and Balance Sheet as on that date.

Ignore depreciation.

Answer

A. WREN

TRADING AND PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED JUNE 30TH, 1965

	£	£
Sales		12,260
Less Cost of Sales		
Opening stock	512	
Purchases	10,261	
	10,773	
Less Closing stock	958	
		9,815
Gross Profit		2,445
Less Expenses		
Staff wages	312	
Shop expenses	115	
Rent and rates	283	
Heat and light	60	
		770
Net profit for the year to capital account		£1,675

BALANCE SHEET AS AT JUNE 30TH, 1965

	£	£		£	£
Capital Account			*Fixed assets at cost*		
Cash introduced		2,500	Goodwill	600	
Current Account			Premium on lease	400	
Net profit for the year	1,675		Fixtures and Fittings	550	
Less drawings	563				1,550
		1,112			
Current Liabilities			*Current Assets*		
Trade creditors	506		Stock at cost	958	
Accrued expenses	48		Trade debtors	96	
		554	Prepayment	40	
			Cash: At Bank	1,496	
			In hand	26	
					2,616
		£4,166			£4,166

Workings

SALES ACCOUNT

	£		£
Trading and Profit and Loss Account	12,260	Cash banked	11,053
		Payments from cash receipts not banked:	
		Wages account	312
		Expenses account	115
		Drawings account	563
		Purchases account	95
		Cash in hand June 30th, 1965	26
			12,164
		Debtors June 30th, 1965, c/d	96
	£12,260		£12,260
Debtors, b/d	96		

PURCHASES ACCOUNT

	£		£
Cheques drawn	9,660	Trading and Profit and Loss Account	10,261
Sales Account	95		
Creditors June 30th, 1965, c/d	506		
	£10,261		£10,261
		Creditors, b/d	£506

RENT AND RATES ACCOUNT

	£		£
Cheques drawn	290	Prepaid June 30th, 1965, c/d	40
Accrued June 30th, 1965, c/d	33	Trading and Profit and Loss Account	283
	£323		£323
Prepaid, b/d	£40	Accrued, b/d	£33

Note: Rates accrued = 1/4th × 132 = £33
Rent prepaid = 3/15ths × 200 = £40.

HEAT AND LIGHT ACCOUNT

	£		£
Cheques drawn	45	Trading and Profit and Loss Account	60
Accrued June 30th, 1965, c/d	15		
	£60		£60
		Accrued, b/d	£15

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Taxation Case

A full report of the case summarized in this column will be published, with Notes on the Judgment, in the 'Annotated Tax Cases'

W. C. Jones & Company Limited v. Minister of Labour

In the High Court of Justice (Queen's Bench Division)
May 24th, 1968

(Before THE LORD CHIEF JUSTICE (Lord PARKER OF WADDINGTON), Mr Justice WALLER and Mr Justice FISHER)

Selective employment tax – Acquisition of scrap metal – Sorting ferrous from non-ferrous – Use of fragmentizer – Material compressed to customers' demands – Whether manufacturing activity – Whether metal manufacture – Whether dealer in scrap metal – Method of approach in these cases – Selective Employment Payments Act 1966, sections 1 (2), 10 (5) – Minimum list headings 311, 321, 322, 499.2, 832.6.

The appellant company obtained mixed scrap metal from dealers and scrap in the form of obsolete or redundant machinery and in the form of old cars. The mixed scrap was sorted into the ferrous and the non-ferrous. The obsolete machinery was broken up and also divided into ferrous and non-ferrous. For the old cars the company used a fragmentizer, into which a car minus some components was put, and from which metal hammered down in the form of plates was obtained. The broken-down and sorted material was then compressed according to the demands of the company's customers.

It was contended for the company that this activity was a manufacturing activity within Order V, Metal Manufacture, of the Standard Industrial Classification; and that as regards ferrous metals the activity came under minimum list heading 311, and as regards non-ferrous metals under heading 321 or 322, or that the whole activity was under heading 499.2. It was also contended for the company that the Industrial Tribunal decided that the activity was mainly within heading 832.6, but should first have considered the other headings. It was contended for the Minister that the activity fell expressly under heading 832.6, and was therefore not a manufacturing activity for the purpose of the statute. The Industrial Tribunal decided in favour of the Minister.

Held: the Industrial Tribunal's decision was correct; and it was academic that the Tribunal went to heading 832.6 at once and not first to the headings relied on.

In Parliament

Finance Bills: Explanatory Memorandum

MR SHELDON asked the Chancellor of the Exchequer if he will undertake to make it the practice to publish an explanatory memorandum on Finance Bills.

Mr HAROLD LEVER: There are some difficulties in the way of the hon. Member's suggestion, but I am sympathetic to his proposal and will consider it carefully.

Hansard, June 25th, 1968. Written answers, col. 46.

Foot-and-Mouth Disease: Compensation

SIR G. NABARRO asked the Chancellor of the Exchequer what is the total liability to income tax, surtax, corporation tax and capital gains duty on the compensation for foot-and-mouth disease which has been assessed since September 1967.

Mr HAROLD LEVER: Practically none. It will be some years before the effect of the special arrangements I announced on April 2nd, can be measured. [See *The Accountant* of April 13th, 1968, page 474.]

Hansard, June 25th, 1968. Written answers, col. 46.

Inland Revenue Offices: Hours

Mr DUDLEY SMITH asked the Chancellor of the Exchequer if he will provide improved facilities for the public wishing to consult their local income tax inspector by instructing offices of the Inland Revenue to remain open for longer hours and on Saturday mornings.

Mr HAROLD LEVER: No, sir. But interviews can be arranged by appointment outside the hours when offices are open to the public.

Mr SMITH: Does not the hon. gentleman agree that Saturday morning closing in common with other public sectors places many people at a serious disadvantage, particularly when they have to take time off from work to attend interviews?

Mr LEVER: What the hon. gentleman has failed to note is that I referred to interviews by appointment including on Saturday morning or other times when the office is closed. That is different from keeping the offices open in the hope that somebody might want to come in at those times.

Mr HIGGINS: Is the hon. gentleman aware that if one rings up the Inland Revenue offices in London one does not get a reply after 4 p.m. and one can try for a long time before one realizes that the calls are not being answered? Would it be possible for them to make arrangements for a recorded message so that people are told that no officer is available after 4 o'clock.

Mr LEVER: I shall inquire into that.

Hansard, June 25th, 1968.. Oral answers, col. 234.

Notes and Notices

RAIL GO-SLOW

We regret any inconvenience which, despite efforts to achieve earlier dispatch, readers may experience in receiving their copies of *The Accountant* as a result of dislocation of train services arising from the railway unions' work-to-rule.

THE ACCOUNTANT

Index to Vol. CLVIII

Publication of the general index to Vol. CLVIII – January to June 1968 – due with this issue, is being deferred until next week in order to facilitate earlier dispatch of the present issue.

PROFESSIONAL NOTICES

Messrs W. A. Browne & Co, Chartered Accountants, announce that with effect from July 1st, 1968, they will be working in close association with Messrs Moore, Stephens & Co, Chartered Accountants, of Bucklersbury House, London EC4, to which address they will be moving as soon as possible. Mr F. R. Leeds, F.C.A., after over fifty years' connection with the firm, and Mr M. J. Stewart, F.C.A., will retire on June 30th, and on July 1st, 1968, Mr Hobart Moore, F.C.A., Mr Cyril N. Smellie, M.B.E., F.C.A., Mr Bryan L. Barber, M.C., T.D., F.C.A., Mr Kenneth M. Wilkie, F.C.A., and Mr David J. LaNiece, F.C.A., partners in Moore, Stephens & Co, will join W. A. Browne & Co.

Messrs Carter, Chaloner & Kearns, Chartered Accountants, of Manchester, announce that Mr T. E. Caro, F.C.A., has retired from the partnership as from June 17th, 1968, on accepting an appointment in commerce. Mr Caro will continue to act in a consultative capacity to the practice.

Messrs Chalmers, Impey & Co, Chartered Accountants, announce the retirement from the firm of Mr E. C. Turner, T.D., M.COM., F.C.A., on June 30th, 1968. Mr Turner will remain available for consultation.

Mr Alfred Collins, F.C.A., announces that as from July 1st, 1968, he is entering into partnership and amalgamating his practice with that of Mr Jeffery-English, F.C.A., and Mr Michael Pins, A.C.A. Mr English and Mr Pins are partners in Messrs Willis, Parsons, English & Co, Chartered Accountants, and the combined practices will be carried on from their address at Exchange Buildings, Upper Hinton Road, Bournemouth. Telephone Bournemouth 20756/7/8.

Messrs Cooper Brothers & Co and Coopers & Lybrand announce that with effect from July 1st, 1968, they have amalgamated their interests in the Republic of Ireland with the old established firms of Kevans & Son, Kean & Co and Peterson Morrison & Co. The partners in the new firm, which will have offices in Dublin, will be Sir Henry Benson, C.B.E., F.C.A., Messrs John Perfect, F.C.A., Michael S. Potts, A.C.A., Dermot L. Shortall, F.C.A., Donal P. Flinn, B.COMM., F.C.A., R. Ian Morrison, F.C.A., Fergal Smithwick, B.COMM., F.C.A., Patrick J. Byrne, B.COMM., F.C.A., Mrs Margaret Downes, B.COMM., F.C.A., Messrs John P. Lyons, A.C.A., and Patrick F. Shortall, B.COMM., A.C.A.

Messrs Cooper Brothers & Co and Coopers & Lybrand announce that as from Monday, July 8th, the address of their Coventry office will be Park House, Station Square, Coventry, CV1 2FL. Telephone Coventry 22116.

Messrs Dunn, Wylie & Co, Chartered Accountants, of Chile House, 20–24 Ropemaker Street, London EC2, announce that Mr Andrew David Francis Cunynghame, A.C.A., who has been a member of their staff for several years, was admitted into partnership on July 1st, 1968.

Messrs Raymond Goodchild & Co, International Accountants, announce that as from July 1st, 1968, they have taken additional offices at 53 Victoria Street, London SW1. Telephone 01–799 6250.

Messrs Goodland, Bull & Co, Chartered Accountants, of Taunton and Tiverton, announce that as from June 1st, 1968, Mr David William Griffiths, A.C.A., and Mr Charles Brian Hodson, F.C.A., who have been with the firm for a number of years, have been admitted into partnership.

Messrs Hill, Vellacott, Chartered Accountants, announce that Mr C. D. Walker-Arnott, F.C.A., their senior partner, retired from the partnership on June 30th, 1968, after an association with the firm of forty-four years.

Messrs Lancaster & Co and Messrs Haskins & Co, Chartered Accountants, of Wolverhampton, announce that Mr Ronald Massey, F.C.A., has retired from both practices with effect from April 1st, 1968. Mr Massey, who founded the firm of Lancaster & Co in 1929, will continue as a consultant in both practices.

Messrs Morris, Gregory & Co, Chartered Accountants, of 3 York Street, Manchester 2, and Messrs Leach, Johnson, Travis & Co, Chartered Accountants, of 32 Kennedy Street, Manchester 2, announce that with effect from July 1st, 1968, their practices which have been carried on under the name of Morris, Gregory, Travis & Co since August 1st, 1966, will revert to their original form and be operated from their respective offices. At the same time the practice of Towers & Naismith, Chartered Accountants, which recently joined the Kennedy Street office will be merged with that of Leach, Johnson, Travis & Co.

Messrs Payne, Stone, Fraser & Co, Chartered Accountants, of 17 Bedford Row, London WC1, announce that by mutual consent Mr J. A. Grenier, A.C.A., will leave the partnership with effect from August 1st, 1968. The firm will be continued by the remaining partners, Messrs J. F. Butlin, F.C.A., R. A. Joynes, F.C.A., J. J. Wrench, F.C.A., C. E. Bond, F.C.A. and M. G. P. Mayes, A.C.A. Mr J. A. Grenier will be devoting full time to The London School of Accountancy.

Messrs Shelvoke, Pickering, Janney & Co, Chartered Accountants, of Spencer House, Digbeth, Birmingham 5, and 57–61 Market Place, Cannock, Staffs, announce with deep regret the death of their partner, Mr R. T. Janney, on June 15th, 1968. The Birmingham and Cannock practices will be carried on by the remaining partners.

Messrs Sherwood, Cohen, Fine & Partners, of 13–15 Portland

Place, London W1, and 30 Addiscombe Grove, Croydon, Surrey, announce that Messrs P. L. SIMMONS, A.C.A., A.T.I.I., and S. L. GAVURIN, A.A.C.C.A., became partners in the firm on May 1st, 1968.

MESSRS SHERWOOD, COHEN, FINE & PARTNERS together with Messrs KEMSLEY & COMPANY announce that their two firms have merged with effect from May 1st, 1968.

MESSRS TANSLEY WITT & CO, Chartered Accountants, announce that Mr C. J. GEE, A.C.A., and Mr C. F. HALPIN, A.C.A., have been admitted into partnership from July 1st, 1968.

MESSRS THORNTON BAKER & CO, Chartered Accountants, announce that Mr R. G. PORTERGILL, A.C.A. (Birmingham firm), retired on May 31st, 1968, and Mr D. BOLTON, F.C.A. (Manchester firm), Mr S. J. DRAKELEY, F.C.A. (Birmingham firm), Mr E. F. EVANS, F.C.A. (Cardiff firm), Mr E. LUCAS, F.C.A. (Bedford firm), and Mr T. H. SANDERS, F.C.A. (Northampton firm), retired on June 30th, 1968. On July 1st, 1968, Mr P. R. DEYES, B.COM., A.C.A. (Liverpool firm), Mr D. R. HOBBS, A.C.A. (Bradford firm), Mr D. H. LEWIS, A.C.A. (Birmingham firm), Mr J. E. MACMILLAN, A.C.A. (Portsmouth firm), Mr C. P. MASTERS, A.C.A. (London firm), Mr G. THOMPSON, F.C.A. (Leicester firm), and Mr I. R. TURNER, A.C.A. (Newcastle firm), were admitted to partnership.

APPOINTMENTS

Mr G. W. G. Brigg, F.C.A., has been appointed a joint managing director of Dickinson Robinson Group Ltd.

Mr G. Abbott, A.C.A., has been appointed chief accountant of John West Ltd.

Mr G. Abbott

Mr J. Hewett

Mr J. Hewett, A.C.A., has been appointed internal auditor of Pitney-Bowes Ltd.

Mr A. Davies, A.C.W.A., has been appointed financial director to the main board of W. H. Rowe & Son Ltd.

Mr D. C. Holley, A.I.M.T.A., A.M.INST.T., has been appointed chief accountant of Manchester City Transport, in succession to Mr H. K. Greaves, F.C.A., F.I.M.T.A., A.A.C.C.A., A.M.INST.T., who has recently retired.

Lord McFadzean, COM.I.E.E., C.A., J.DIP.M.A., chairman of British Insulated Callender's Cables Ltd, is to succeed Sir Paul Chambers as president of the British Shippers' Council.

Mr P. Morrison, F.C.A., has been appointed to the board of Fleetway Publications Ltd.

Mr J. S. Shearer, C.A., group secretary of Calor Gas Holding Co Ltd, has been appointed a director of the company.

Mr Alan Tonkin, F.C.A., has been appointed to the board of the Prince of Wales Dry Dock Co, Swansea, Ltd.

CUBAN CLAIMS

British nationals who have suffered loss of property in Cuba as a result of Cuban measures since January 1st, 1959, or who have balances held in a bank in Cuba, are advised to apply to the Claims Department, Foreign Office, First Avenue House, High Holborn, WC1, for the appropriate forms on which to record details of such cases. Completed statements are required to be lodged with the Claims Department by October 31st, 1968.

BUSINESS EFFICIENCY EXHIBITION, 1968

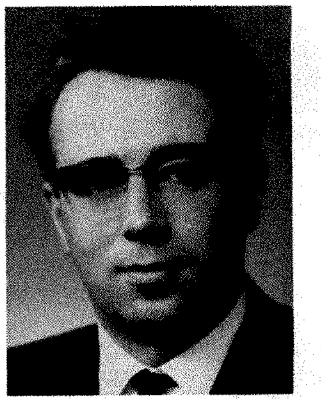
Accent on Decimalization

Nearly one hundred and seventy companies plan to exhibit several million pounds' worth of office machines, systems and items of other equipment at this year's national Business Efficiency Exhibition, at Olympia, London, in October. Organized by the British Equipment Trade Association, the exhibition will be officially opened by Sir Peter Runge, a deputy chairman of the British National Export Council, on September 30th and will be open to the public from October 1st to 9th.

This year the Decimal Currency Board will have a stand at the exhibition and emphasis will also be placed on decimalization by many exhibiting companies who will demonstrate the adaptability of their machines to decimal operations in anticipation of the United Kingdom's changeover to decimalization in 1971.

MANCHESTER SOCIETY OF CHARTERED ACCOUNTANTS

New President



Mr D. A. Boothman, F.C.A., a partner in the firm of J. Needham & Co, Chartered Accountants, of Manchester and associated firms, is the new President of the Manchester Society of Chartered Accountants.

Thirty-six years of age, Mr Boothman was educated at William Hulme's Grammar School, Manchester, and subsequently served articles with Mr E. G. Clegg, F.C.A., senior partner of J. Needham & Co. He was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1954, having been awarded the John Montgomery Newman and Theodore Gregory Prize in the final examination, after which he served two years' National Service with the Air-Sea Rescue Branch of the Royal Air Force. He became a partner in his present firm in 1957.

Elected to the Committee of the Society in 1962, Mr Boothman served as its secretary from 1963 to 1966. As a member, and then Chairman of the Society's Joint Tuition Committee he played a particularly active role in organizing the revision courses at Burton Manor and later Lyme Hall. Mr Boothman is currently President of the Manchester Students' Society.

Other officers elected for the ensuing year are:

Vice-President: Mr A. J. Burden, F.C.A.

Treasurer: Mr P. L. F. Grant, F.C.A.

Secretary: Mr J. M. Gilliat, B.A.(COM.), F.C.A., Dearden, Harper, Miller & Co, Croxley House, 14 Lloyd Street, Manchester 2.

Annual Report

The report of the Committee for the year ended December 31st, 1967, shows total membership of the Society as 2,145 which included 135 members of the Society's Bolton Branch. The Society's Education Advisory Committee arranged a week-end conference at Buxton in March on the 1965 Finance Act which, as in the previous year, set out to guide those who attended the workings of the Act in relation to corporation and capital gains taxes. The Committee also held three successful one-day courses on auditing during the latter part of the year.

On discussion groups, the report states that in Manchester, the general discussion groups continued to meet during the year and the Society's taxation discussion groups were also active in Manchester, Bury, Oldham, Altrincham and Stockport. The topics discussed by the groups outside Manchester ranged over many practical accountancy problems, in addition to tax problems.

Monthly luncheon meetings were also a successful feature of the Society's activities at which a number of talks dealing with, among others, investments grants, and the Land Commission Act, were given by specialist guest speakers.

A two-year course for members taking the Certificate in Management Information was started in September on one evening a week. Course subjects are being treated in the form of a series of short courses, certain of which are available to those not taking the complete course. A series of lectures on taxation and an introductory series in operational research already arranged have, the report says, gained considerable support.

Referring to student activities, the report states that support for the three-week pre-examination revision courses continued to show an increase. On day release courses, an important development during the year was the first nine-month course for articled clerks. The aim of this course 'is to develop a fundamental understanding of business and accounting problems which will serve as a foundation for future professional education'.

CHARTERED ACCOUNTANTS' GOLFING SOCIETY

Summer Meeting

The summer meeting of the Chartered Accountants' Golfing Society was held at the Stoke Poges Golf Club on June 21st. The leading scores were as follows:

Stableford Medal	*Pts*
E. H. Head (17) wins First Prize and Royal National Lifeboat Spoon (On last nine)	33
R. A. Thomas (18) wins Second Prize (On last nine)	33
D. C. Urry (13) wins Third Prize (On last nine)	33
D. S. Thompson (4) wins Scratch Prize	28
F. J. S. Pigott (16)	32
P. Knight (9)	31
A. M. Milling (16)	30

(Thirty-five played)

Foursomes	*Pts*
T. B. Corrin (12) and I. B. Blake Thomas (16) win First Prize and Royal National Lifeboat Spoons	31
A. M. Milling (16) and R. A. Thomas (18) win Second Prize (On last six)	29
R. G. Carter (12) and J. B. Walsh (14)	29
A. W. Coleman (14) and R. A. Daniel (16)	29

The Lord Mayor's Cup was won by two strokes on a play-off over three holes by D. C. Urry (13) 33, after play-off with E. H. Head (17) 33, and R. A. Thomas (18) 33.

Match with Students' Golfing Society

The annual match between the Chartered Accountants' Golfing Society and the Chartered Accountant Students of London Golfing Society took place at Hadley Wood Golf Club on June 13th.

This year the Chartered Accountants were successful by seven matches to five with three halved, and thus won the Bernard Pittman Plate.

The match was played in the form of foursomes in the morning and singles in the afternoon and the detailed results were as follows:

Morning

C.A.G.S.		*Students*	
R. Anderson N. Day	beat	T. Tyler G. Hamilton	by 2/1
W. B. Henderson J. M. Dann	beat	G. Baker C. Ryall	by 3/2
A. W. Coleman D. G. Richards	beat	N. Jenkins F. Lawson	by 4/3
E. H. Head S. W. Penwill	lost to	B. Tomlinson G. Coleman	by 4/3
W. J. Leeming H. G. J. Foulger	beat	R. Nicholson T. Trigg	by 4/3

Afternoon

C.A.G.S.		*Students*	
R. Anderson	beat	T. Tyler	by 2/1
N. Day	beat	G. Hamilton	by 8/6
W. B. Henderson	lost to	G. Coleman	by 5/4
J. M. Dann	halved	N. Jenkins	
A. W. Coleman	beat	G. Baker	by 5/3
D. G. Richards	halved	C. Ryall	
E. H. Head	halved	B. Tomlinson	
S. W. Penwill	lost to	R. Nicholson	by 7/6
W. J. Leeming	lost to	F. Lawson	by 2 up
H. G. J. Foulger	lost to	T. Trigg	by 1 up

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THE ACCOUNTANT

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Taking Stock of Stock-taking

IN the past, the Achilles heel of many auditors has been their casual attitude towards the verification of stocks. Compared with buildings, plant, debtors and cash, all of which are comparatively easy to vouch, stock is usually a composite and rather nebulous asset, the physical content and quantity, location, condition, worth, and even ownership of which may be difficult to pin down. For this reason, auditors in general have tended perhaps too often to take the line of least resistance by relying overmuch on the opinion of company officials not only as to its value but even its existence.

Slowly, however, the conscience of the profession has been asserting itself and the practice – current in America for many years – of subjecting stocks and stock-taking methods to careful scrutiny is now being followed in Britain by most firms. *Pour encourager les autres*, the Council of The Institute of Chartered Accountants in England and Wales has just published a statement on auditing (reproduced elsewhere in this issue) entitled 'Attendance at Stock-taking'. This document, after defining the general obligations of an auditor as regards stock and the stock-taking procedures which it is recommended the client should adopt, goes on to consider the auditor's detailed duties before, during, and after the stock count.

The first of these detailed duties is the preliminary task of studying, before their distribution, the client's stock-taking instructions. This advance homework will enable the auditor to measure the strength or weakness of the arrangements, to make suggestions for their improvement and to plan the extent of the check which he will have to carry out.

At the actual stock-taking, his main duty is to see that the client's staff is acting according to the agreed instructions and, if circumstances warrant it, to impose a countercheck on selected items. He should also make notes in such a form that they may be clearly identified with the related sections in the final stock-sheets.

After-stock-taking exercises should include a check of the 'cut-off' with the appropriate goods inwards and outwards data, a test that the final stock-sheets have been properly derived from the original count records and the follow-up and clearance of queries.

The Council's statement ends with suggestions for stock verification when attendance at the count is not practicable. These should be carefully studied by the auditor in doubt because the Council emphasizes that if stock is a material factor in his client's business then he has no alternative but to qualify his report if he has been unable to satisfy himself as to the reliability of the stock-taking procedures – a warning which underlines the importance of the Council's precepts.

Finance Bill on Report

THE final stages of the Finance Bill in the House of Commons were concluded last week. A four-day debate on the report stage ended on Thursday and on the same evening the guillotine fell on the motion for the third reading which was duly carried.

On Tuesday the Government began the introduction of a long series of amendments designed to improve the Bill – for which, of course, there was plenty of scope. Mr JOHN DIAMOND, F.C.A., the Chief Secretary, proposed a very long new clause designed to modify the provisions of section 85 of the Finance Act 1965.

Section 85, itself four pages long, confers 'overspill' relief on companies which, on the tests laid down in the section, can show that in the first three years of Schedule F they had paid dividends out of profits which had already borne standard rate income tax and profits tax. In so far as these dividends also bore Schedule F tax, there would clearly be double taxation of a particularly onerous kind, and the new clause fills a lacuna in the section.

The CHIEF SECRETARY said that it was possible for a company to pay more than three years' dividends during the three years, in which case the section would not be comparing like with like. The dividends to be taken into account are now to be those which are declared in respect of profits on accounting periods totalling three years, these to start with the first one to which the first dividend in the corporation tax system relates. The new clause provides that the dividends to be taken into account shall not exceed in amount those attributable to the profits of a period of thirty-six months.

Mr DIAMOND justified the clause on three grounds: first, to save the money which would otherwise be lost to the Treasury; secondly, because though there were certain companies which could take advantage of the original wording, there were many who could not and therefore there would undoubtedly be lack of equity. Finally, it was right that at this early stage those companies which would in due course consider what dividends they ought to declare at the end of the three-year period, should have the advantage of knowing the views of the CHANCELLOR at once.

Another clause was passed on the same topic of overspill relief. This modifies paragraph 2 of Schedule 7 to the Finance Act 1966, which deals with intra-group dividends. The original paragraph 2 did not provide for the case of a group where there were 'grandchild' as well as 'child' subsidiaries of a principal company.

On the next new clause it was the turn of Mr HAROLD LEVER, the Financial Secretary to the Treasury, to speak for the Government. This clause is headed 'Double taxation relief: group investment in overseas company' and it applies to any provision in a treaty which:

'(*a*) applies to any company which controls directly or indirectly, not less than a stated fraction of the voting power of the company resident in a specified territory outside the United Kingdom; and

'(*b*) in allowing credit against United Kingdom tax on dividends paid to any such company by the company so resident, authorizes account to be taken of tax payable by the company so resident in respect of the profits out of which the dividends were paid.'

The clause directs that credit shall be allowed as if the provision treated the subsidiary of a company which owns, directly or indirectly, the stated fraction of the voting power of a non-resident company, as if that subsidiary also owned that fraction of the voting power of the non-resident company.

Mr LEVER also moved a clause which will be very welcome to traders who borrow money overseas. Sub-clause (1) amends section 52 (5) of the Finance Act 1965, which relates to deductions for interest and annual payments paid by a company to a non-resident. It imposes restrictions on the amount which would otherwise be deductible.

To be deductible, the interest has to satisfy one or other of paragraphs (*a*), (*b*) and (*c*) of section 52 (5). Sub-clause (1) of the new clause broadens the scope of paragraph (*b*) which in future will be satisfied even though the liability to pay the interest was not incurred wholly or mainly for the purposes of trading activities outside the United Kingdom. The sub-clause applies only where the interest is payable in currency of a territory outside the Scheduled Territories, and it does not apply where the payer and payee are under common control. Sub-clause (3) makes corresponding provisions for traders who are not charged to corporation tax. For the latter purpose, the new clause applies for accounting periods ending on or after April 6th, 1968.

Another new clause, this time moved by the Opposition though amended by the Government, makes a tiny concession in the anti-dividend-stripping provisions of section 65 and Schedule 17 in the Finance Act 1965. Paragraph 4 (3) of Schedule 17 makes a concession where company A acquires from company B a holding in company C. As at present written, the sub-paragraph requires all three companies to be associated. The amendment makes it no longer necessary for company C to be associated.

Clause 40 (2) cuts down the marriage allowance in the year of marriage, and the FINANCIAL SECRETARY admitted that Mr J. E. D. HILL, M.P., had drawn attention to an anomaly which had escaped everyone else. This was the case of a man receiving housekeeper allowance who then marries. He could not then have housekeeper allowance as well as the marriage allowance, but clause 40 (2) might cut his marriage allowance to well below the housekeeper allowance. Accordingly, a new sub-clause gives the taxpayer a right to elect between the marriage allowance and the housekeeper allowance for the tax year in which he marries.

The provisions for aggregating a child's investment income with the total income of his parent, contained in clause 15, has been relaxed in two respects. A new sub-clause (2) excludes:

> 'Income derived from any sum, or from assets representing any sum, paid by way of, or in satisfaction of, a claim for, damages in respect of personal injury to the infant (including any disease and any impairment of his or her physical or mental condition).'

The income of the kind specified has come to be known as 'thalidomide' income but, of course, it applies to all damages granted to an infant in respect of personal injury.

The other amendment is that the £5 exemption contained in section 397 (3) of the Income Tax Act 1952 has not only been retained but has been extended to all income whether within section 397 or not.

A number of amendments were also made to Schedule 8. One makes it clear that where the child pays annual payments or life premiums, then any relief in respect of them should be available to the parent. Where income attributed to the parent is trust income, then he can recover tax from the trustees rather than from the infant.

A new paragraph 7 (*a*) has been introduced to meet a point which was raised with the Revenue by the Accountants' Joint Parliamentary Committee concerning loss relief. At present the trading taxpayer who incurs a loss can opt that it be set against his income only and not against his spouse's income, any unsatisfied loss being carried forward. The A.J.P.C. requested that a similar option should be given with regard to aggregated income, and paragraph 7 (*a*) (ii) provides for it.

Clause 16 and Schedule 9 to the Bill deal with life policies, life annuity contracts and capital redemption policies, and the Government introduced no less than fifty-five different amendments to these provisions. The first relaxes the conditions on which interest of up to £100 may be allowed as a deduction for surtax.

A new sub-clause (5) to clause 16 has an anti-avoidance object, that is, to stop people using a pre-Budget policy as a vehicle for avoidance. If a pre-Budget policy conformed with the tests in Schedule 9, any variation of it must conform with the new rules if it is to continue to qualify for tax relief. The effect is that if anybody has a pre-Budget policy which does not satisfy the conditions, he may keep it as it stands and the new legislation does not catch it, provided that he does not vary it. If he varies the policy to increase the benefit or extend the term of the insurance, he will become exposed to the new legislation.

A proviso to the new sub-clause (5) allows certain pre-Budget policies to be rectified by the end of 1968. They will then be qualifying policies for all purposes.

Paragraph 1 of Schedule 9 to the Bill, defining a 'qualifying policy', was the subject of several long and complicated amendments. They allow policies to qualify if the capital sum secured is payable on disability as an alternative to death or maturity, and also deal with joint and contingency assurances.

Paragraph 2 of Schedule 9 dealing with endowment assurances was also amended. One change is that an endowment assurance policy may not provide payments of capital during its term except through surrender of bonuses. Paragraph 4 was extensively altered and paragraph 5 completely replaced. Many further amendments to Schedule 9 were passed, the ultimate effect of which will require to be studied carefully.

A small but useful concession was made in relation to clause 18 (2) which deals with the assessability of receipts after a change in accounting basis. As originally drawn, sub-clause (8) said that subsection (2) should not apply where the change took place before March 19th, 1968, and before that date:

> '(*a*) the Inspector received written notice that the change had been or was to be made; or
> '(*b*) the trade, profession or vocation had been permanently discontinued'.

Paragraph (*a*) has been amended to read '(*a*) the decision has been taken to prepare accounts reflecting the change; or', it is now for the taxpayers concerned to satisfy the Inland Revenue, or failing them, the Appeal Commissioners that the decision had in fact been taken.

Paragraph 6 of Schedule 10 to the Bill gives the taxpayer an option to elect that a post-cessation receipt be charged as if received on the date on which the discontinuance took place. The original time limit to this election was twelve months after the year of assessment. This has been amended to two years. A corresponding extension was made in section 33 (3) of the Finance Act 1960.

Schedule 11 to the Bill, which deals with the new provisions about quoted securities held on April 6th, 1965, in relation to capital gains tax, was the subject of two amendments under which the time limit for making an election under paragraph 1 was altered to two years.

Current Affairs

Retirements from the Council of the Institute

THE retirements of Mr J. H. Mann, M.B.E., M.A., F.C.A., and Mr F. J. Weeks, F.C.A., and the resignation of Mr G. G. G. Goult, F.C.A., from the Council of The Institute of Chartered Accountants in England and Wales were received with regret at a meeting of the Council held on Wednesday of last week (reported on other pages of this issue).

Mr Mann, who is senior partner in the firm of Mann, Judd & Co, Chartered Accountants, of London, has been an active member of the Council since 1956. He has served on most of its committees including the former Applications Committee from 1956 to 1963, the Articled Clerks Committee from 1956 to 1958, Courses Committee from 1959 to date (Chairman from June 1964 to July 1967), Disciplinary Committee from 1961 to date, District Societies from 1959 (Chairman from July 1967 to date), Examinations Committee from 1956 to 1959 and Parliamentary and Law from 1957 to 1961.

Mr Weeks, who was, until last month, accounting director of the W. D. & H. O. Wills branch of The Imperial Tobacco Co Ltd, Bristol, has been a member of the Council since 1961. He has served as a member of a number of its committees including the Disciplinary Committee from 1966 to date, the former Finance Committee from 1962 to 1966 and the Parliamentary and Law Committee from 1961 to date. He was President of the then Bristol and West of England Society of Chartered Accountants – now The West of England Society of Chartered Accountants – in 1959–60.

Mr Goult, of Ipswich, has been a member of the Council since 1958. Among the committees on which he has served have been the former Applications Committee from 1960 to 1965, the former Finance Committee from 1958 to 1960, the former Library Committee from 1961 to 1966, and the Public Relations Committee from 1961 to 1968. He has been President of the East Anglian Society of Chartered Accountants on two occasions, first during the Second World War from 1939 to 1945 and again in 1953 to 1954.

Scottish Institute's Examination Results

THERE were 511 candidates for Part V of the examination of The Institute of Chartered Accountants of Scotland held last May of whom 229 (44·8 per cent) passed.

The Institute's Gold Medal as well as the Canadian Prize were awarded to Mr R. C. Hendry. The Institute's Prize for the two candidates whose performance in Part V was the most meritorious was won by Mr A. L. Harrison and Mr I. C. Borland. Mr Harrison was also awarded The J. C. Burleigh Prize for the candidate whose performance over Part V was the most meritorious.

The John Munn Ross Prize was won by Mr I. R. McNeil whose performance in Paper I of Part V was the most meritorious. He was also awarded The J. C. Burleigh Prize for the successful London candidate whose performance in Part V was the most (and sufficiently) meritorious. The C. J. Weir Prize for the successful Aberdeen candidate whose performance in Part V was the most (and sufficiently) meritorious was won by Mr F. G. S. Dalgarno. The Guthrie Prize for the successful woman candidate whose performance in Part V was the most (and sufficiently) meritorious was won by Marjorie G. Struthers.

The list of the successful candidates in Part V appears on other pages of this issue.

More on I.R.C.

IT was hardly surprising that after the Industrial Reorganization Corporation's controversial intervention in the Cambridge Instruments take-over, the Parliamentary Opposition should have sought a debate. Sir Keith Joseph, M.P., moved a motion on Monday deploring the intervention with public money on behalf of the bidder, and he viewed the I.R.C.'s action as a dangerous precedent.

In his reply, Mr Peter Shore, Secretary of State for Economic Affairs, supported the decision of the I.R.C. based on its assessment of the interests concerned, adding that its judgement was supported by the Minister of Technology because George Kent and Cambridge were strongly complementary. The participants in the bid had rejected the I.R.C. proposed solution and left it with no alternative but to intervene.

The basic difference between the I.R.C. and other statutory bodies, declared Mr Shore, was that the former had a statutory obligation to have regard to the wider economic interests of the nation. He was not prepared to give a directive to prevent the I.R.C. from taking part in contested bids. The motion was lost on the division by seventy-four votes.

As a footnote to the debate, the I.R.C. has announced that it now holds not more than 4,295,000 ordinary and deferred shares in George Kent, which represents 24·9 per cent of the enlarged equity, and that it has undertaken to consider making funds available for further development of the group. The Corporation will have representation on the Kent board. In a Press statement the I.R.C. reiterates its reasons for intervening in the Cambridge Instruments take-over, asserting that 'if Cambridge were acquired by Rank, without Kent, the opportunity for the best possible development of the industry would have been missed'.

As we pointed out in a leading article on June 29th, the issue is not merely whether or not the I.R.C.'s judgement will be proved correct, but what City and industrial reaction will be to recent developments. The debate in the House merely serves to underline these doubts.

No Case to Answer

IN the ordinary way when a taxpayer appeals to the Appeal Commissioners he has the right to begin and he carries the burden of proof. However, it was established in 1955 that there were circumstances in which the burden of proof, and therefore the right to begin, rested with the Crown (*C.I.R. v. Transport Economy Ltd* (34 A.T.C. 51)).

In *C.I.R. v. White Bros Ltd* (35 A.T.C. 196), on an appeal against surtax directions, the taxpayer's representative, at the end of the Crown's case, submitted that there was no case to answer. The Special Commissioners accepted that submission and discharged the directions without calling for any evidence from the appellant.

The Crown appealed to the High Court, where Mr Justice Upjohn held that the 'no case to answer' submission should not have been accepted by the Special Commissioners. He said the Crown had made out a sufficient *prima facie* case which ought to have been answered. As the point was a novel one, instead of allowing the appeal and confirming the directions, he remitted the case to the Special Commissioners to hear evidence from the taxpayer. However, he also said:

> 'In my judgment, a submission like that ought not to be entertained by the Special Commissioners. Such a practice, as was pointed out by the Court of Appeal in *Alexander v. Rayson* ([1936] 1 K.B. 169), where you have no jury, is highly inconvenient . . .
>
> 'Accordingly – and I lay it down for their future guidance – the Special Commissioners when hearing cases of this sort where the onus is upon the Crown, ought not to listen to a submission of no case to answer. It must be met with the polite ripost: do you or do you not elect to call any evidence in this case? If the taxpayer elects to call no evidence, then, of course, he cannot complain if, having called no evidence, the Special Commissioners or, on appeal, this Court, come to the conclusion that the Crown has discharged the onus which is upon it and it would be too late for him then to ask for leave to call evidence.'

Such a rule does not apply in criminal law. In *Regina v. Gravesend Justices* ex parte *Sheldon* last week the Lord Chief Justice said (as reported in *The Times* of June 27th) that the ground of the application was that the justices had convicted the applicant on a submission of no case, whereas he had every intention of calling evidence if the submission was not upheld. What had happened was that at the end of the prosecution's case his solicitor, addressing the justices, said: 'I am not calling the defendant, I am making a submission of no case.' The justices rejected the submission and proceeded to convict the applicant.

What the applicant seemed to have had in mind was that in the event of the submission being rejected, he would call evidence on his behalf. He was, in effect, making a submission of no case and reserving his right to call evidence thereafter if necessary. In the circumstances the conviction was quashed by an order of certiorari.

In these days the Revenue frequently make assessments in back duty cases on the grounds of fraud or wilful default so that appeals against such assessments are quasi-criminal in their nature. These assessments naturally concern periods which have long since passed, and in respect of which it is usually very difficult to accumulate evidence. Hearings of appeals in these cases are very often protracted. It seems unfortunate that the taxpayer who has been accused of fraud should not be allowed to make a submission of no case to answer without thereby forfeiting his right to give evidence, should that submission be rejected.

Institute's Annual Service

THE President and members of the Council of The Institute of Chartered Accountants in England and Wales, together with a considerable number of members, attended the annual service of the Institute held at the Church of St Margaret, Lothbury, London EC2, on Wednesday of last week.

The service was conducted by the Rev. A. J. Drewett, M.A., B.SC., Rector of St Margaret and Rural Dean of the City, and commenced with the hymn 'Lead us, heavenly Father, lead us'. After the singing of Psalm 121, the lesson from St Matthew, Chapter 6, verses 19–24 was read by the President, Mr Stanley Dixon, M.A., F.C.A. The address was given by the Rt Rev. Lewis Mervyn Charles-Edwards, M.A., D.D., Bishop of Worcester.

Other hymns in the service were 'Put thou thy trust in God' and 'Praise, my soul, the King of Heaven', during which a collection was taken for the Chartered Accountants' Benevolent Association which amounted to £52 14*s*.

When is a Business Taken Over?

SECTION 13 of the Redundancy Payments Act 1965 applies where:

> '(*a*) a change occurs (whether by virtue of a sale or other disposition or by operation of law) in the ownership of a business for the purposes of which a person is employed, or of a part of such a business, and
>
> (*b*) in connection with that change the person by whom the employee is employed immediately before the change occurs . . . terminates the employee's contract of employment, whether by notice or without notice.'

If the new owner renews the employee's contract then, broadly speaking, the employee can have no redundancy claim. However, as in the case of income tax, it is one thing to talk about a business or part of a business, it is another thing to decide – on the facts of a particular case – whether there has been, to use the old income tax jargon, a 'succession'.

In *Lloyd v. Brassey*, Mr Brassey had sold his farm and buildings by public auction in October 1966, but continued farming there until 1967 when the deadstock and livestock were sold at a dispersal auction. At that auction the new owner of the farm, Mr Barlow, bought 14 out of 129 deadstock lots, and 20 out of 46 livestock lots. The new owner continued to employ Mr Lloyd who had been employed by Mr Brassey. Nevertheless, Mr Lloyd successfully claimed redundancy pay.

The Lord Chief Justice, according to *The Times* of June 27th, said that the sole question was whether section 13 applied. It was a difficult case. At first sight there was complete continuity of employment. Here was a man in the same job, on the same premises, carrying on the same activities under the new owner as under the former owner. However, it was clear that one must look at the substance rather than at the form of the transaction. There was no single test whether a change of ownership was a transfer. A mere transfer of assets alone was not a transfer of a business. There had been no transfer of goodwill and no question of either contracts or liabilities being taken over, or of a restrictive covenant being imposed on the seller. More important was the fact that not all the assets of the business necessary for the activity to be carried on were transferred. Looked at broadly, it was impossible to say that there had been a transfer of ownership of the business, or change in the ownership of the combination of operations carried on by Mr Brassey.

Reversing the decision of the Tribunal, the Divisional Court allowed the claim for redundancy pay.

This is My Life

by An Industrious Accountant

I HAD an appointment with Prinny for 11 a.m. sharp, but like all personnel directors he is not averse from projecting a public image of an overburdened executive beset by bewildered henchmen or else by the crafty union intrigues. When I arrived, therefore, punctually at 10.59 a.m., he was closeted with three hard-faced visitors, all talking at once and all rapping their forefingers on a chart across his desk.

'Won't be too long; don't go away', he called over his shoulder to me with a lordly wave, so I sat down with restfully crossed legs in his outer office. His glacial private secretary raised an inquiring eyebrow. It hinted something of the 'less than the dust beneath thy chariot wheels' attitude, so I felt a slight adverse reaction.

'Just let me see Davey's personal file, will you, please' I said casually. Glacial has numerous filing cabinets, full of years of confidential records on engagements, salary increases, rotations, annual appraisals and so on, which are the apples of her eye. It actually hurts her, I think, to let anybody else intrude on her prerogative.

'The personnel director never likes me to show private files around indiscriminately', she said coldly, as she rose to open the cabinet. 'He's quite right, of course', I answered distantly. 'You'll find yourself in real trouble if you slip up on that one.'

Glacial disdained to reply to this counterblast. She flicked rapidly through the files and found Davey's immediately, to my concealed disappointment. 'This only dates from 1962', I told her, 'The old files, too, please.'

She opened another cabinet to get them, on this occasion having to search for several moments, for its drawers were crammed with similar ancient folders. I did a spot of almost – but not quite – inaudible tut-tutting as I waited, causing her to redden slightly. '*Three* files for Davey?' it seemed fair to ask: 'Surely routine letters can be scrapped and only essential data retained to save valuable filing space?'

'Our department works on the basic concept that for personality assessments nothing significant in our records is routine', Glacial said with a faint indication of quoting Holy Writ at least, so I tried again. These were surely old Brown's personal files beside Davey's, and the poor chap's been dead and gone these five years past! Surely, but surely, we don't have to retain all those useless records for deceased employees? The cabinets bulged with dog-eared folders, and faded photographs still smiling under cellophane covers; they held a sort of graveyard decay. . . .

Glacial was decidedly flushed by now but she came back fighting. 'We don't accept pragmatic dichotomy between the past and present establishment', she retorted, a phrase reminiscent of those wordy courses that our personnel staff love to attend. 'Our data encapsulation is extrapolated indefinitely. Only last month it enabled us to answer promptly two solicitors' letters seeking next-of-kin, as well as one from a tax analyst, whose father worked here, asking if we could give him any information about his grandparents. . . . *Our* department's records *never* go astray.'

This final barb, though uttered with toneless impersonality, recalled the previous week's shambles when Payroll lost the signed salary cheques and the financial accountant mislaid the new building contract. I buried myself quickly in Davey's private file while Glacial behind her typewriter sat grinning like the Cheshire cat.

New Philosophy for Companies?

CONTRIBUTED

COMPANY law in the United Kingdom (and in those Commonwealth territories which have followed United Kingdom practice) has developed along different lines from other parts of the world. The history of joint-stock enterprise with limited liability is little more than a century old, and United Kingdom legislation, until recently, reflected the principles of Victorian *laissez-faire* – although perhaps there has been some progress since the first Companies Act of 1856 which, in the words of Professor Gower (*Modern Company Law*) 'allowed incorporation with limited liability to be obtained with a freedom amounting almost to licence'.

Company legislation, by virtue of the innovations of the 1967 Act, now beginning to bite, is of more than usual topicality at this time. A paper on 'Comparative and Prospective Company Law' presented recently in a series of lectures organized by the Department of Management Studies, Barking Regional College of Technology, is therefore of considerable current interest, and particularly so as the author was Mr C. W. Jardine, Under-Secretary in the Companies Department of the Board of Trade.

Extension of disclosure

Mr Jardine reminded his audience that the Companies Act 1967 extended the principle of disclosure beyond the needs of shareholders, creditors and prospective investors, to include such information as the value of exports which may be of greater significance 'in the national interest'. He is, of course, entitled to his own opinion, although members of the accountancy profession who have the responsibility of complying with the disclosure provisions of, for example, sections 6, 8 and 19 of this Act may wonder whether these do not serve the political aims of the present Government more faithfully than any legitimate national or commercial purpose.

As Mr Jardine has pointed out, in the United States of America commercial enterprise generally did not become a matter of Federal jurisdiction, and a number of individual States attempted to secure greater legislative protection for domestic than for 'foreign' corporations established under other jurisdictions. This narrow concept was directly opposed to economic expansion across State boundaries, and in the early part of the present century a series of Supreme Court decisions protected foreign corporations against this form of 'unconstitutional' discrimination.

Differences between the company law of the United Kingdom, went on Mr Jardine, and that of other nations of Western Europe were traceable to the unique development of the English common law as opposed to the greater degree of codification inherent in most Continental systems. In general terms, the Continental countries tended to lay down more stringent conditions for the establishment of companies than in the United Kingdom, and to require registration at local level in each area where business was carried on: thus a large undertaking with several branches was subject to multiple registration and the provision of information at both local and national level.

A great deal of thought is currently being devoted to the harmonization of company law throughout the area of the European Common Market, and to the possible establishment of 'European companies' (see, for example, *The Accountant*, June 15th). On the other hand, much of Europe still adopted a *laissez-faire* attitude to the conduct of a business once established, and thus the stringency of regulations affecting formation and registration are not always extended to the disclosure of accounting information on the United Kingdom model.

Future developments

Members of the accountancy profession and, indeed, others concerned with the formation and management of companies, will no doubt study with particular care Mr Jardine's views on the direction of company law in the future. The 1967 Act, he said, did not deal – for reasons of Parliamentary time – with several matters in the report of the Jenkins Committee on Company Law Amendment; but whilst this certainly offered scope for a new Bill on conventional lines to deal with the doctrine of *ultra vires*, the powers of directors, shares with no par value or with restricted voting rights, and share transfer registration (to mention only a few), it was also arguable that some attention should be paid to the wider question of the position of the company – in particular the large national or supranational enterprise – in the community at large, and that the whole philosophy of company law required 're-thinking' from this aspect.

One question which naturally arose was the representation at board level of the company's employees. The report of the Royal Commission on Trade Unions and Employers' Associations (the 'Donovan Report') was divided on this issue, the majority view being that there would be difficulty in defining the degree of joint responsibility which a 'worker's director' (inevitably subjected to divided loyalties) could properly share with other members of the board, and that this problem was not directly relevant to the Commission's main terms of reference.

By comparison, German company law already imposed on all businesses, other than small family concerns, a form of divided control in which the authority of the board of directors was subject in certain respects to a 'committee of supervision' which included representatives of employees and shareholders. In the basic industries of coal and steel, a special rule required that shareholders and employees must be equally represented on the committee of supervision, and that the board of directors must include a labour director whose appointment was acceptable to a majority of the employee members of the committee. Such a ruling inevitably resulted in a real transfer of power to employees, and the German trade unions have been pressing for an extension of this form of co-determination to all businesses over a certain size, including banks and insurance companies. The employers' organizations were resisting this on the ground that the responsibilities of management and unions were in danger of becoming blurred.

Another problem, according to Mr Jardine, was the participation by employees in the profits of the company. Profit-sharing schemes, and encouragement of employee shareholdings, were not unknown in Britain, but there had not been adopted the principle of the French 'Vallon Amendment' of 1967, which provided for compulsory employee participation in profits where more than one hundred were employed. There was evidence, he said, that the Vallon principle was being favourably considered by the Commission of the E.E.C. for possible wider adoption throughout the Common Market. Should United Kingdom legislation move in a similar direction, accountants with experience of developing and installing profit-sharing schemes would no doubt anticipate problems, not least of definition.

It may fairly be commented, however, that the present Government's policy of price and dividend restraint raises an interesting speculation as to the extent to which directors, whilst pursuing a course which they conceive to be in the national interest, might be criticized for failing to carry out their duties towards their shareholders.

Is the long-term investor more worthy of encouragement than the speculative short-term buyer, and is it possible to differentiate between the two in the matter of voting rights? This again permits of some debate: certainly any attempt to favour one as against the other would present major difficulties of drafting and interpretation, and would be regarded as a serious inroad upon the freedom of contract.

Mr Jardine who, it must be admitted, was offering conjectural speculations on the possible direction of future legislation, rather than expressing any official policy – also suggested that the State might reinforce the powers of shareholders, as representing the public interest, in examining the performance and efficiency of companies. In this connection, the activities of the Industrial Reorganization Corporation (strongly criticized in a leading article in *The Accountant* of June 29th) will no doubt be closely studied.

Auditors' Attendance at Stock-taking

The Council of The Institute of Chartered Accountants in England and Wales has reviewed, in the light of modern requirements, its Statement on Auditing No. 2, 'Stock-in-trade and Work in progress', which was issued in March 1962 and reproduced in The Accountant *of March 24th, 1962.*

Whilst of the opinion that most of the considerations, examinations and tests outlined in that statement are still valid, the Council considers that the guidance given concerning attendance to observe stock-taking is no longer adequate. A revised edition of Statement on Auditing No. 2 is to be issued in due course but in the meantime the Council has issued the following statement for the guidance of members.

The new statement relates primarily to company audits but the considerations outlined apply equally to other audits which involve the auditor in expressing an opinion on the truth and fairness of the view given by the accounts.

General considerations

ALTHOUGH it is not the auditors' duty to take stock, they must satisfy themselves as to the validity of the amount attributed to this asset in the accounts which are the subject of the audit. In determining the nature and extent of the audit steps necessary for this purpose the auditors must examine the system of internal control in order to assess its effectiveness relative to the ascertainment and evaluation of stock and work in progress. (The auditors' examination of a client's system of internal control is described in Statement on Auditing No. 4, paragraph 19.) An important element in this system is the client's procedures for ascertainment of the quantities of stocks on hand and their condition. In most circumstances the best method by which the auditors can satisfy themselves as to the effectiveness of the application of the client's stock-taking procedures is by observation of those procedures. Normally this will be done on a test basis and it will not be necessary for the auditors to observe the application of the stock-taking procedures to the whole of the stock or to the stock at all locations. The extent of the auditors' test observation will depend on their assessment of the soundness of the system prescribed by the client.

2. **Therefore wherever it is practicable and stock-in-trade and work in progress is a material factor in the business, the auditors should satisfy themselves as to the effectiveness of the application of the client's stock-taking procedures by observation on a test basis of these procedures whilst the stock-taking is in progress.**

3. The presence of auditors at stock-taking does not relieve the management in any way of their responsibilities; in order to avoid misunderstanding the auditors should make it clear to the management that the reason for their attendance is not to take stock but to satisfy themselves as to the effectiveness of the application of the client's procedures. The auditors are neither stock-takers nor valuers nor have they any responsibility for supervising the stock-taking. Their presence is to enable them as auditors to consider the adequacy and effectiveness of the client's procedures. They will, however, be ready to advise or make recommendations, just as they would on other matters when they consider that the system of internal control is weak or is not being properly carried out.

4. While it will not normally be necessary for the auditors to observe the application of the client's procedures in their entirety or at all locations, the auditors' tests should cover a representative selection of the stock and of the procedures. Where stock is held at a number of locations, the selection of the location or locations to be visited by the auditors may be planned so as to cover all significant locations over a period of years. The extent of their tests will be for them to decide. There may be instances where it is not practicable to test the client's procedures by attendance and observation of the stock-taking, for example because the stocks are situated at locations at which the

auditors cannot readily attend. Where the auditors cannot observe the stock-taking, for any reason, they should adopt some or all of the additional procedures suggested in paragraphs 18–20 below.

Client's stock-taking procedures

5. The amount at which stock is stated in the accounts may be based upon a physical stock-taking at the year-end or upon information taken from stock records. Stock records may in turn be substantiated by complete physical stock-takings taken earlier in the year, or upon continuous or periodical physical stock-takings, or upon combinations of these in relation to various sections of stock. Under some accounting systems it is common practice for work in progress to be based solely upon cost records. (See Statement on Auditing No. 2, paragraph 14.) Where stock at the year-end is based on a physical stock-taking taken earlier in the year, the client's procedures should include a review of entries in the intervening periods. Unusual variations from the normal pattern should be explained. These procedures will involve comparison of the amount at the year-end with previous years and with current production and sales to check that these also appear to follow a normal pattern.

6. Where stock is based on records substantiated by continuous or periodical physical stock-takings, the procedures should ensure that:

(*a*) adequate stock records are kept up to date;

(*b*) each category of stock is checked at least once a year and a record of checks maintained;

(*c*) if the checking is continuous, it is done systematically over the year, or if periodic, at suitable times such as when stocks are low or have reached a specific reorder point;

(*d*) all differences are properly investigated and the records amended accordingly. A schedule of differences with action taken should be maintained.

7. The procedures for carrying out a physical stock-taking vary in detail according to the size and circumstances of the business and the nature of its stock records. Definite instructions, preferably in writing, should be issued in all cases, however, for the guidance of those who will be engaged in the actual stock-taking. The procedures will consist essentially of:

(*a*) identification of the articles and their ownership;

(*b*) counting, weighing or measuring;

(*c*) reporting of stocks which are damaged or otherwise defective;

(*d*) recording the information.

8. Although considerations will differ in each case, there are certain general procedures which can be applied in most stock-takings but which may need some adaptation to meet particular circumstances such as where the stock-taking is on a continuous basis:

(*a*) the stock-taking should be planned well in advance and be carried out carefully and systematically by persons fully informed of the duties involved. Those taking part should include persons familiar with the various sections of stock, and where practicable supervisors and checkers drawn from departments which have no control over the usual custody or movement of stock. Where specialist knowledge is necessary to identify the nature or quality of items of stock, the client should ensure that personnel properly qualified for this purpose other than those responsible for custody of the stock are available at the stock-taking. In exceptional circumstances it may be desirable for the services of an independent expert to be utilized, e.g. for the chemical analysis of samples taken at the time of the stock-taking from bulk stocks of high value;

(*b*) the whole of the stock-taking area should be divided into sections for control purposes, and the movement of stock during the stock-taking should preferably be suspended or, if this is not practicable, it should be strictly controlled;

(*c*) arrangements should be made to ensure a proper 'cut-off'. This means that dispatch documentation should have been originated for all goods dispatched before stock-taking and, if still on hand, for all goods in which the property has passed to the customer. The latter must not be included as stock when the count is made. The procedures should ensure that the appropriate sales invoices are recorded in the correct financial period. Also liabilities should be set up for all goods received and included in stock, and for all goods purchased, the property in which has been passed to the client. These should be included in stock even though they are not then on the company's premises. Where only certain sections of stock such as raw materials, work in progress, finished goods, etc., are being taken physically, the arrangements should ensure a proper 'cut-off' between the various sections;

(*d*) arrangements should be made to identify slow-moving, obsolete or damaged stock;

(*e*) arrangements should be made to ensure that goods held in safe custody for others are not recorded as part of the client's stock;

(*f*) arrangements should be made to confirm and record in the stock sheets details of goods held for the company by outside parties (see paragraph 16 below).

9. The client's stock-taking procedures should also call for records of the following information which should be available to the auditors during and at the conclusion of the stock-taking:

(*a*) details of stock movement during the count;

(*b*) last numbers of goods inward and outward records;

(*c*) details of the numbering of stock sheets issued; of those completed and of those cancelled and unused.

Suggested audit procedures

10. The audit steps relating to observation of the stock-taking by the auditors will cover three stages: *before*, *during* and *after* the stock-taking. The procedures described below are intended to be a broad outline which will need adaptation to meet the circumstances of the client, for example where a client's stock-taking is based on records substantiated by continuous physical stock-takings.

Before stock-taking

11. Before the stock-taking the auditors will need to study the client's stock-taking instructions (preferably before they are issued), to become familiar with the location of the stocks and to plan the work they are to undertake during

the stock-taking. The work to be undertaken will depend on the auditors' evaluation of the client's procedures, as contained in the instructions and explanations given by the client. The auditors will be concerned to see that the client's procedures are adequate in the light of the circumstances. These circumstances will include the locations at which stock is held, the quantities on hand and the values of the stocks, the factors affecting the condition of stocks and the possibilities of the existence of obsolete or slow-moving stocks. Where these procedures are considered to be weak or defective they should be discussed with the client before the stock-taking instructions are issued with a view to changes being made to remove the defects.

During stock-taking

12. The main task during stock-taking will be to ascertain whether the client's employees are carrying out their instructions properly. It may be sufficient to watch the counting and recording as it is done by the client's employees, but it would usually be advisable for the auditors to test the efficiency of the counting by arranging for a count or a recount, in their presence, of selected items. In arranging for items to be counted or recounted in their presence it will be advisable for the auditors to select items from both the count records and the factory or warehouse floor for tracing from one to the other. The test selection should include a reasonable proportion of high value items.

13. Auditors should make such notes as they consider necessary during the course of their observation, for follow-up. These notes will normally include the following:

(*a*) details of items of stock selected by the auditors so that the particulars may be checked to the final stock-sheets;
(*b*) lists of items actually counted in the auditors' presence;
(*c*) details of any stock noted by the auditors as being obviously defective, damaged or slow-moving;
(*d*) details of instances where the client's stock-taking procedures were not carried out.

14. Where serious inaccuracies or irregularities are revealed during the course of the auditors' observations it may be necessary to arrange for certain sections of, or the whole of, the stock to be recounted.

After stock-taking

15. The information obtained by the auditors at the stock-taking should be followed up when finally reviewing the amount at which the stock is stated in the accounts. The steps taken to do this will include the following:

(*a*) a check of the 'cut-off' using the details of stocks movements and of the last numbers of goods inwards and outwards notes (see paragraph 9 (*a*) and (*b*));
(*b*) a test that the final stock-sheets have been properly prepared from the count records and include all stocks belonging to the company. The test will be made by reference to the details of the stock-sheet numbering noted by the client (see paragraph 9 (*c*)) and also the notes made by the auditors (see paragraph 13).
(*c*) a follow-up of all outstanding queries.

16. Stocks belonging to the company but held by others should be shown as such in the stock-taking records. The auditors should examine the confirmations obtained by the company from the custodians and, where the amounts of such stocks are material, the auditors should independently obtain confirmations from the custodians in selected cases. They should also examine reports on any periodic inspections of the stock made by the company's own employees and should make inquiries as to the standing of the custodians where the circumstances warrant it.

If attendance during stock-taking is not practicable

17. As stated in paragraph 4 above there may be occasions when it will not be practicable for the auditors to observe the client's stock-taking. In such cases they should carry out such additional procedures (distinct from and extra to those usually followed when forming an opinion on stocks) as in their judgement, as skilled professional men, are necessary in the circumstances to satisfy themselves that:

(*a*) the records of the stock-taking produced to them represent a substantially correct inventory of the stocks and work in progress owned by the company on the stock-taking date; and
(*b*) the condition of the stocks and work in progress has been properly assessed.

18. The additional procedures to be followed for this purpose will depend on the circumstances which make it impracticable for the auditors to attend for the purpose of observing the stock-taking. In some instances, such as where stock is held overseas, it may be possible for the auditors to arrange for a suitably qualified agent to attend the stock-taking on their behalf and for him to report to them.

19. In other instances auditors who have numerous client companies, which may have a common accounting date and which take stock on the date, may find that their resources in manpower are insufficient for them to attend on every client for the purpose of observing at least some part of the stock-taking. If auditors find that they cannot attend every year, this does not relieve them of their responsibilities. They will have to consider carefully whether the alternative procedures available to them will be sufficient to discharge those responsibilities in the circumstances of each of the clients concerned. Where the client has a well-developed system of internal control and of stock recording it will usually be possible for the auditors to substantiate to their satisfaction the validity of the stock-taking records. This can be done by arranging for the test counts of selected items to be made at an earlier or later date when a representative can attend and observe.

20. In the case of smaller business, however, the systems of internal control are necessarily more elementary and in many instances the records of the annual stock-taking are not supported by any continuous stock records. Sometimes it may be possible to arrange for the stock-taking to take place on a date close to the accounting date at a time when the auditors can attend and for records of movements of stocks in the intervening period to be maintained. These records must be in such a form that the auditors can satisfy themselves as to their reasonable accuracy.

21. If, however, the auditors are unable reasonably to satisfy themselves as to the reliability of the stock-taking, and stock is a material factor in the business, they will have no alternative but to make an appropriate qualification in their report on the accounts.

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Conference Expenses and Schedule D

by G. R. BRETTEN, M.A., LL.B.

IN computing the profits of a trade, profession or vocation assessable to income tax under Cases I and II of Schedule D it is no less important to be able to determine with certainty those expenses which are admissible deductions than to be able to identify chargeable receipts.

Section 137 of the Income Tax Act 1952 sets out a list of disbursements which, subject to certain qualifications, are not deductible in computing the amount of chargeable profits. Most of the provisions of section 137 are specific and as such present little difficulty in application, but the section also contains the following general prohibition:

> 'Subject to the provisions of this Act, in computing the amount of profits or gains to be charged under Case I or Case II of Schedule D, no sum shall be deducted in respect of – (*a*) any disbursements or expenses, not being money wholly and exclusively laid out or expended for the purposes of the trade, profession or vocation.'

The inference which has been drawn from the negative terms of section 137 (*a*) is that expenses wholly and exclusively incurred for the purposes of the trade, profession or vocation are deductible in computing profits, except in so far as they are specifically excluded by the Income Tax Acts (see *per* Lord Sumner in *Usher's Wiltshire Brewery Ltd v. Bruce* (6 T.C. 399)). Accepting this general formula for admissibility, judges have long been considerably exercised in its interpretation and application.

General principles on admissibility

In deciding whether money has been wholly and exclusively expended for the purposes of a trade, regard must necessarily be had to the peculiar requirements of the trade in question. Each case must turn on its particular facts and it is, therefore, as a general rule impossible to classify in the abstract certain types of disbursements as deductible or non-deductible. Scrutton, J., illustrated this proposition in *Smith v. Incorporated Council of Law Reporting for England and Wales* (6 T.C. 477), by saying:

> 'Payments for political purposes might conceivably be for the purposes of trade. It might be that a payment by a company to the Tariff Reform League might be of great advantage to its trade. It might be that a payment by a company to a political party which was supposed to be identified with the interests of a particular trade might be to the advantage of the trade.'

The impossibility of absolute classification of items of expenditure as deductible or non-deductible has not, however, prevented the judges from attempting to state tests to be generally applied in order to decide this question. For instance, in *Strong & Co Ltd v. Woodifield* (5 T.C. 215), Lord Loreburn, L.C., opined that 'only such losses can be deducted as are really incidental to the trade itself'. In his judgment, disbursements only remotely connected with the trade, or incurred by reason of some extraneous interest or activity of the trader, should not be allowed as deductions. In the same case, however, Lord Davey predicated what is apparently a narrower proposition, stating:

> 'It is not enough that the disbursement is made in the course of, or arises out of, or is connected with, the trade, or is made out of the profits of the trade. It must be made for the purpose of earning the profits.'

The tests propounded by Lord Loreburn, L.C., and Lord Davey can be squared only if one interprets the former's 'really incidental' as meaning 'for the purpose of earning profits', and it is certainly not obvious that the phrase should be so restrictively construed.

A judicial tendency

Examination of other cases reveals a judicial tendency to admit expenditure for the purposes of deduction even though it manifestly could not directly and immediately affect the profits of the trade. For example, in *Morgan v. Tate & Lyle Ltd* (33 A.T.C. 184; 35 T.C. 367), the respondent company was allowed to deduct money expended in a propaganda campaign against nationalization, albeit it was impossible to demonstrate that the expenditure had produced, or ever would produce, profit. In order to justify the deduction it was necessary to show only that the expenditure was incurred for the purpose of benefiting the trade and with the expectation of facilitating the earning of profit.

In *British Insulated & Helsby Cables Ltd v. Atherton* (5 A.T.C. 47; 10 T.C. 155), Viscount Cave, L.C., put forward an even more liberal principle of admissibility.

> 'A sum of money expended, not of necessity and with a view to direct and immediate benefit to the trade, but voluntarily and on the grounds of commercial expediency, and in order indirectly to facilitate the carrying on of the business, may yet be expended wholly and exclusively for the purposes of the trade.'

This broader approach was adopted in the recent case of *Edwards v. Warmsley Henshall & Co* ([1967] T.R. 409), where Cross, J., explained that he regarded it as 'well settled that an expense may be allowable even though it is not directly related to the earning of profits.

here and now. It is enough that it was incurred for the purpose of maintaining or enhancing the profit-earning capacity of the business.'

Despite some variation in judicial formulation of the test for determining the admissibility of deductions, certain principles have been incontrovertibly established. First, deductible expenditure must have been incurred solely for the purpose of the trade or business (see *per* Romer, L.J., in *Bentleys, Stokes & Lowless v. Beeson* (31 A.T.C. 229)). If money is expended partly for the purposes of the trade and partly for some other purpose, no deduction whatsoever may be made, however much the trading purpose predominates.

Secondly, when it is possible that the expenditure was incurred for purposes other than, or in addition to, bona fide business purposes, 'the purpose in the mind of those who incurred the expense' is the decisive consideration. Amplifying this point, Cross, J., commented in *Edwards v. Warmsley Henshall & Co*:

> 'The fact that the expenditure has not in fact achieved the purpose of earning profits or maintaining or enhancing the profit-earning capacity of the business, or that the Commissioners or the Court may not think that it was in fact well calculated to do so, is irrelevant except in so far as those circumstances may cast doubt on the genuineness of the purpose alleged by those who incurred the expense.'

Thirdly, whereas duality of purpose constitutes an absolute bar to deduction of expenditure, duality of effect is irrelevant to this question (see *per* Lord Loreburn in *Usher's Wiltshire Brewery* case). In *Morgan v. Tate & Lyle Ltd*, for instance, it was recognized that the propaganda campaign against the nationalization of the sugar refining industry might be of benefit to companies other than the respondent, but this did not disqualify the expenditure for the purposes of deduction. Similarly, in *Bentleys, Stokes & Lowless*, Romer, L.J., pointed out that although business entertaining necessarily involves an element of hospitality, it might nevertheless have for its sole object business promotion, and if such was the case expenses thereby incurred should be deductible.

Conference expenditure

Finally, it is also well established that if a deduction is not statutorily prohibited, reference to general accountancy practice may be of assistance to the Court in deciding whether or not the expenditure in question should be deductible (see *per* Lord Clyde in *Lothian Chemical Co Ltd v. C.I.R.* (6 A.T.C. 823)). Accountancy practice is not, however, taken by the Courts to be in any way conclusive of the issue (*per* Lord Keith in *Morgan v. Tate & Lyle Ltd*).

In the light of the general principles reviewed above, two recent cases concerning expenditure incurred in attending conferences can be considered. It cannot be doubted that conference attendance is a normal aspect of business life of persons actively engaged in one of the professions, and recognition that expenditure thereby incurred might be an admissible deduction would be a matter of wide significance.

Conference expenditure, however, raises some of the difficulties adverted to above in acute form. First, can it be successfully argued that expenditure incurred in attending conferences is sufficiently closely connected with the business to come within the phrase 'for the purposes of the trade', as it has been judicially interpreted? Secondly, conference attendance almost inevitably involves mixing business with pleasure, and the Commissioners and the Court will therefore be required to determine whether or not the expenditure was incurred solely for bona fide business purposes.

Such were the problems which confronted Pennycuick, J., in *Bowden v. Russell & Russell* (44 A.T.C. 74). The facts were that a Mr Taylor – a partner in a firm of Bolton solicitors – spent six weeks in the summer of 1960 in America and Canada, during which time he attended the annual meeting of the American Bar Association in Washington and the Commonwealth and Empire Law Conference in Ottawa. He was accompanied by his wife and in the course of the six weeks they enjoyed a considerable amount of sightseeing. Mr Taylor explained that his purpose in attending the conferences was to maintain his status as a solicitor, to improve his reputation in the United Kingdom, and to increase his clientele. He admitted that he also intended to have a holiday with his wife. The firm contended that the expenses incurred by Mr Taylor for the purpose of attending the conferences, totalling £573, should be allowed as a deduction in computing the profits of the firm. The General Commissioners allowed the claim to the extent of £448.

Issue of 'remoteness'

On appeal, counsel for the Crown argued first that the connection between conference attendance in North America and Canada and the business of a firm of solicitors in Lancashire was so tenuous that the expenditure could not properly be said to have been incurred for the purposes of the firm's business. Counsel was doubtless unimpressed by the fact that the only tangible advantage accruing to the firm as a result of the visit was that an electric typewriter had been installed in the office. Secondly, it was argued that as the expenses were incurred for the dual purpose of attending the conferences and having a holiday they were inadmissible.

Pennycuick, J., admitting that it may often be difficult to determine whether or not the expense in question has been incurred solely for business purposes, took the view that in the instant case Mr Taylor's admission that it was his intention to have a holiday with his wife at the same time as attending the conferences was conclusive of the matter. No deduction whatsoever should be made in respect of the expenses. The moral of the judgment appears to be that if conference expenditure is to be deductible, the taxpayer must protest that his attendance was motivated entirely by business considerations, no thought of pleasure or sightseeing ever having crossed his mind, and he must certainly refrain from taking his wife on the trip.

With reference to the first of counsel's contentions, Pennycuick, J., observed:

> 'Having decided the appeal on the issue of duality I think it is undesirable for me to express a view on the issue of remoteness. Although each case turns on its particular facts, the deductibility or otherwise for the purposes of tax of the expense of attending conferences is a matter of wide importance which has not yet, I understand, been judicially considered and I do not think I ought to make any observations on it which are not necessary for the determination of the present appeal.'

The issue of 'remoteness', thus avoided by Pennycuick, J., in *Bowden v. Russell & Russell*, has recently been the subject of judicial scrutiny in *Edwards v. Warmsley Henshall & Co.* The case arose from a claim by a firm of chartered accountants, practising in Chester, to deduct in computing their profits for income tax purposes, expenses totalling £160 incurred by one of their partners, a Mr Evans, in attending the 1962 International Congress of Accountants held in New York. It appeared that The Institute of Chartered Accountants in England and Wales had sent a circular to its members, including the respondent firm, containing details of the conference and expressing the hope that the Institute would be suitably represented there.

Mr Evans attended the congress on behalf of his firm, spending no more time in America than was necessary. Apart from attending the conference sessions, he visited American accountants and spent some time sightseeing. The General Commissioners found that the firm considered that conferences formed an essential part of professional life, that Mr Evans had made many useful contacts at the congress, and that he had examined methods of accounting which might be advantageously adapted by his firm. On the basis of these findings the General Commissioners held that the expenses should be allowed as a deduction.

On appeal, counsel for the Crown submitted that the commissioners had not properly directed themselves on the remoteness issue. Cross, J., however, held that the appropriate question to ask was whether the 'expenditure was incurred by the partners in the taxpayers' firm with the sole object of earning profits for or maintaining or enhancing the profit-earning capacity of the business'. He took the view that the commissioners had addressed themselves to this question, and that the decision at which they had arrived was open to them on the evidence.

The second major submission advanced on behalf of the Crown raised the duality issue. The argument was not, as in *Bowden v. Russell & Russell*, that the taxpayer had intended to have a holiday as well as to attend the congress, but that Mr Evans had attended the conference 'not to enhance the profit-earning capacity of the firm but to advance the supposed interests of the profession of accountants'. The basis of this argument was the wording of the circular from the Institute of Chartered Accountants and the fact that the taxpayers' firm did not have any considerable North American business to foster.

This submission had not been made before the commissioners, and Cross, J., had either to refuse to admit the point or to send the case back to the commissioners for further argument. He decided that the Crown should not be allowed to raise the question of duality at such a late stage in the proceedings. The result was that the decision of the commissioners permitting the deduction was allowed to stand.

Conclusion

Cross, J., observed in the *Warmsley Henshall* case that the failure to resolve the duality question robbed the 'decision in this case of any general significance'. It is respectfully submitted that the judgment is of greater importance than the learned judge modestly affected. First, the case makes it clear that the phrase 'wholly and exclusively laid out or expended for the purposes of the trade, profession or vocation' in section 137 (*a*) of the Income Tax Act 1952 is not to be restrictively construed. Cross, J., clearly stated that 'an expense may be allowable even though it is not directly related to the earning of profits here and now'.

Secondly, the remoteness issue, avoided in *Bowden v. Russell & Russell* is resolved in so far as it has now been decided that expenditure incurred in attending conferences can be sufficiently related to business purposes to constitute a deductible expense. Thirdly, the duality question, in the special character in which it appeared in the *Warmsley Henshall* case, is unlikely to be of frequent occurrence and the fact that it was unresolved in that case will, therefore, not seriously detract from the authority of the decision. In any event, in such a case it will be open to the taxpayer to argue that his individual business interests, and the interests of the professional body to which he belongs, are so closely integrated that no sensible distinction can be drawn between them.

Conferences both at home and overseas undoubtedly figure significantly in professional life, and the benefits of contacts and enhanced reputation should not be discounted merely because they cannot directly and immediately be valued in cash. The admission in *Edwards v. Warmsley Henshall & Co* of conference expenditure as a deductible expense will, therefore, be welcomed by the professions. It should, however, be noted that only persons assessed under Cases I and II of Schedule D will be able to benefit from this decision. Members of professions who are assessed under Schedule E will continue to labour under the notoriously prohibitive rules (Income Tax Act 1952, Schedule IX) applicable to that schedule.

The Financial Needs of the British Airlines

by DOUGLAS GARBUTT, A.C.W.A., A.C.I.S., Dip.Ed.

THE recent strike of B.O.A.C. pilots has drawn public attention to the British airlines whose future, as it happens, is being considered by the Edwards Committee. It has been reported that the strike cost B.O.A.C. some £6 million. A loss of this magnitude must be serious; but is it significant in relation to the general financial requirements of the airlines? In this article an attempt is made to assess the relative size of the two airline corporations and then to estimate the extent to which they are capable of meeting their own financing needs.

Nationalized industries in the economy

The important place of the nationalized industries in the British economy is not always fully realized. With the nationalization of steel in 1967, according to the White Paper – *A Review of the Economic and Financial Objectives of the Nationalized Industries* (Cmnd 3437/1967) – their net assets were valued at £12,000 million, and they had an annual investment rate of £1,700 million per year. Over half of this annual investment is financed directly by the Exchequer and it is equivalent to the whole investment of private manufacturing industry. According to the White Paper the nationalized industries contribute about 11 per cent of the gross domestic product and employ about 8 per cent of the total labour force.

With the nationalization of the docks, which the Government has proposed, the nationalized industries will provide most of the economy's basic needs for energy, transport, communications, steel and export facilities, and the efficiency with which so large a sector operates will have a significant impact on the evolution and rate of growth of the whole economy.

According to the White Paper:

> 'In the six years since 1961 much has happened. There have been important technological changes and discoveries of new natural sources which affect the long-term prospects of the fuel industries, there have been changes in the pattern of demand which affect the transport and aviation industries. Despite contractions in one or two industries, the overall capacity of the nationalized sector has been growing fast to meet increased demand. All this has led to investment on a scale far greater than was foreseen six years ago. In consequence, calls upon scarce resources of manpower and capital are now very heavy; and the need to measure these calls, to assess priorities, and to allocate resources from an economically and socially rational basis has become even more important.'

The White Paper then goes on to state the objectives for a nationalized industry:

> 'To increase productivity of both labour and capital employed; raise the rate of new capital formation; to ensure that new equipment is as technologically advanced as possible and is effectively deployed; to increase the profitability of new investments; and to obtain the maximum return in terms of production of goods and services. The nationalized industries have a vital role to play in the attainment of these objectives as well as the development of the Government's wider social and economic policies.'

Size of the British airlines

In terms of average assets employed, B.O.A.C. ranks number ten in the nationalized industries with net assets of £134 million, while B.E.A. ranks number eleven with net assets of £102 million. Compared with the larger nationalized industries, such as the electricity boards with net assets of £3,876 million, and the British Railways Board with net assets of £1,931 million, the two corporations are comparatively small. The rankings are shown in Figure 1.

Figure 1

If the size in terms of average net assets are expressed in relation to the net assets of B.O.A.C. in 1966–67 the result is as follows:

Ranking by size of net assets	*£m*	*In relation to B.O.A.C.* *Times bigger*
1. Electricity, England and Wales	3,876	30
2. British Railways	1,931	14
3. Post Office	1,584	11·8
4. Gas Council	966	7·2
5. National Coal Board	794	5·9
6. Electricity, South Scotland	316	2·4
7. Hydro-Electric North Scotland	258	1·9
8. London Transport	218	1·6
9. Transport Holding Co	175	1·3
10. B.O.A.C.	134	1
11. B.E.A.	102	·76
12. Docks	95	·71
13. Airports	54	·4
14. Waterways	13	·1

In terms of profitability, however, the 1966–67 results show that B.O.A.C. had a profitability of 21·7 per cent, whilst B.E.A. returned only 4·8 per cent. It can be seen from Figure 2 that B.O.A.C. was, in fact, the most profitable of all the nationalized industries. B.E.A. was at the same ranking as that in terms of its net assets, i.e. eleventh. The net income and profitability is given in Figure 2 which ranks the industries by profitability.

Figure 2

NATIONALIZED INDUSTRIES RANKED BY PROFITABILITY

	Net income £m	Net income as a percentage of assets %
1. British Overseas Airways Corporation	29·0	21·7
2. British Airports Authority	5·6	10·3
3. Transport Holding Company	14·3	8·2
4. Post Office	126·5	8·0
5. British Transport Docks Board	5·1	5·4
6. Electricity Council & Boards in England and Wales	200·4	5·1
7. North of Scotland Hydro-Electric Board	12·8	5·0
8. Gas Council & Area Gas Boards	46·5	4·8
9. South of Scotland Electricity Board	14·7	4·6
10. National Coal Board	29·0	3·7
11. British European Airways	4·8	4·8
12. London Transport Board	1·1	0·5
13. British Railways Board	–70·2	–3·6
14. British Waterways Board	–0·6	–4·9
Total, all industries	419·0	3·9%

If the comparison is made between B.O.A.C. and those nationalized industries which are not more than twice as great nor less than half in size, in terms of its net assets employed, then the comparison is even more favourable to B.O.A.C. as can be seen in Figure 3, below:

Figure 3

Size (net assets) in relation to B.O.A.C.		Net income £m	Net income as a % of assets %
1·9 times	Hydro-Electric, North Scotland	12·8	5·0
1·6 „	London Transport	1·1	0·5
1·3 „	Transport Holding Co	14·3	8·2
1·0 B.O.A.C.		29·0	21·7
·76 times	B.E.A.	4·8	4·8
·71 „	Docks	5·1	5·4

Without qualification, however, it is misleading to judge performance on the basis of one year, especially since 1966–67 was undoubtedly a good one for B.O.A.C.

Figure 4 shows the performance of the two airlines in terms of profitability as compared with the average for all the nationalized industries.

Figure 4

	B.O.A.C. %	B.E.A. %	All nationalized industries %
1955–56	3·3	7·8	2·9
1956–57	2·9	4·6	3·6
1957–58	– 1·2	7·6	3·1
1958–59	– 7·1	4·8	2·6
1959–60	3·4	7·7	3·1
1960–61	2·7	6·5	2·8
1961–62	–26·5	0·7	2·2
1962–63	–12·1	2·1	2·9
1963–64	– 6·6	8·3	4·1
1964–65	15·2	5·8	4·3
1965–66	9·6	5·4	4·1
1966–67	21·7	4·8	3·9

It is evident from this that the overall average return for all nationalized industries is comparatively modest and, indeed, never exceeds 4·3 per cent.

For B.E.A., there is a continuous record of profitability with a minimum of ·7 per cent in 1961–62 and a maximum of 8·3 per cent in 1963–64. The record of B.O.A.C. is much more erratic since it hit an all-time low of 26·5 per cent loss in 1961–62 and 21·7 per cent profit in 1966–67. On the basis of the above percentages, the average was less than 1 per cent taking the period as a whole.

Within this overall picture there is also a very strong cyclical trend which may be related to the cycle of air-fleet replacement, since a new aircraft usually gives an initial competitive advantage which is progressively lost as competitors up-date their fleets.

For both airlines the worst year was 1961–62, a year in which air traffic internationally was expected to grow at an anticipated rate of 14 per cent, but failed to do so; accordingly there was considerable over-capacity on a world scale which affected most operating companies.

Comparison with private sector

Comparison of B.O.A.C. with the private sector of the economy can be made on the basis of *The Times* list of the 300 largest industrial companies. The 'top ten' industries or industrial concerns in terms of net assets are listed in Figure 5 from which it can be seen that of the first six organizations employing more than £1,000 million net assets, the three largest are nationalized industries.

Figure 5

ASSETS OF THE INDUSTRIAL 'TOP TEN'

	£m
1. Electricity Council	3,876
2. British Railways	1,931
3. Post Office	1,584
4. Shell	1,375
5. I.C.I.	1,059
6. B.P.	1,034
7. Gas Council	966
8. Coal Board	794
9. Unilever	491
10. British American Tobacco	431

Of the four concerns employing less than £1,000 million net assets, again the first two are nationalized. Unilever and British American Tobacco are quite considerably smaller.

In making a comparison of the airlines it is, of course, necessary to go much further down *The Times* list as there are forty-eight companies employing more than £100 million net assets in 1966–67. Figure 6 shows where B.O.A.C. and B.E.A. would fall if they were included in *The Times* list. Both the airlines would be included in the top fifty companies if they were private undertakings.

Figure 6

In terms of net assets, B.O.A.C. would fall between Marks & Spencer (32) and J. & P. Coats (33) as follows:

Rank out of top 300	Net assets £m	Net profit £m	Profitability %	No. of employees
32 Marks & Spencer	137	31	23·5	26,730
B.O.A.C.	134	29	21·7	19,000
33 J. & P. Coats	130	18	15·2	57,500

B.E.A. would fall between General Electric and Turner & Newall:

	£m	£m	%	
46 General Electric	105	19	18	66,500
B.E.A.	102	4·8	4·8	20,000
47 Turner & Newall	101	16	16·6	40,000

Figure 6 also shows the relative profitability of the two companies between which each corporation would fall. This shows that B.O.A.C.'s present profit performance, although exceptionally good in relation to the other nationalized industries and in relation to its own past record, is not exceptionally so in relation to public companies of comparable size. B.E.A.'s profit record, although respectable in relation to the other nationalized industries, is considerably worse than that of General Electric and Turner & Newall, the groups between which it would fall on *The Times* list.

Profit objectives

The 1967 White Paper states that the objectives set for the nationalized airlines were, in the case of B.O.A.C., 12½ per cent net after taxes on its net assets, while B.E.A. was set the target of making 6 per cent net. B.O.A.C.'s target is considerably higher than the other targets mentioned in the White Paper, the next highest being that set for the electricity boards to make 12·4 per cent gross. If past record is anything to go on, it is really difficult to see how B.O.A.C. can hope to meet their target, although they have been assisted by the way in which their financing has been rearranged.

Profitability comparisons are fraught with difficulties especially when organizations are dissimilar in terms of types of business, size and capital employment. The efficiency of an airline in terms of physical productivity is usually assessed by relating the capacity-ton-miles (C.T.M.) to the number of employees or to operating costs. Data for B.E.A. and B.O.A.C. for the years 1957 and 1965 is shown in Figure 7.

Figure 7

		B.E.A.	B.O.A.C.
C.T.M. per employee	1957	14,600	16,400
	1965	23,100	65,900
Operating cost per		d	d
C.T.M.	1957	39·6	39·1
	1965	35·8	17·1

From this it can be seen that B.O.A.C. made a radical improvement on both these measures in the years concerned. C.T.M.s per employee were multiplied by about fourfold and the operating costs per C.T.M. were more than halved. B.E.A. showed a slight improvement but by comparison not as much as B.O.A.C.

B.E.A. has been handicapped to some extent by the requirement to purchase aircraft in the U.K., and in evidence to the Select Committee on Public Expenditure, the airline disclosed that its direct operating costs per C.T.M. were lower than eight major European airlines in 1964 and 1965. The data is as shown in Figure 8, and from this it can be seen that the trend is unfavourable to B.E.A. Their operating costs per C.T.M. have risen between the two years, whereas for the average European operator it has fallen.

Figure 8

	1964	1965
	d	d
Operating cost per C.T.M.	16·4	16·6
Average (eight European operators plus B.E.A.)	18·8	18·6

Financing the airlines

A summary of the balance sheets of the two corporations is shown in Figure 9 from which it can be seen that in terms of fixed assets employed and the capitalized training and introductory costs, the airlines are very similar. The significant difference was in the amount of current assets on which B.O.A.C. showed £65 million compared with B.E.A.'s £14 million.

Figure 10 shows an analysis of the working capital situation.

Figure 10

WORKING CAPITAL

Comparison of current assets in use at March 31st, 1967

		B.E.A.		B.O.A.C.
Current assets		*£000*		*£000*
Stores		1,109		1,047
Deposits and prepayments		622		1,958
Due by subsidiaries ..		195		80
Debtors *less* provisions ..		11,302		30,624
Short-term deposits ..		250		29,350
Bank balances and cash ..		1,028		1,990
		14,506		65,049
Current liabilities				
Creditors and provisions	13,343		23,996	
Dividend due	—		5,250	
Interest due	1,296		—	
Sales in advance	3,098		21,319	
		17,737		50,565
Net working capital ..				14,484
Deficit of working capital		—3,231		

The two most significant items accounting for the difference in current assets are debtors, of which B.O.A.C. has almost three times as much as B.E.A. and cash on short-term deposit, of which B.O.A.C. held £29 million compared with a mere £250,000 in B.E.A. in March 1967.

Figure 9

BALANCE SHEETS AT MARCH 31st, 1967

	B.E.A.	B.O.A.C.
Sources of funds	*£000*	*£000*
Authorized borrowing limit	*110,000*	*90,000*
Bank loan	—	970
Board of Trade	82,429	25,364
Treasury stock	16,000	
Exchequer dividend capital ..	—	35,000
Reserves	6,642	64,112
Long-term liabilities	—	11,298
Current liabilities	17,737	50,565
	£122,808	£187,309

	B.E.A.	B.O.A.C.
Uses of funds	*£000*	*£000*
Fixed assets at cost less depreciation	104,136	119,011
Current assets	14,506	65,049
Training and introductory costs ..	4,166	3,249
	£122,808	£187,309

B.O.A.C. also held three times as much by way of deposits and prepayments.

On this balance sheet, B.E.A. had a deficit of working capital and B.O.A.C.'s current ratio was about 1·3 to one.

Financial arrangements

B.O.A.C.'s capital was reorganized in 1964 and certain amounts were written off. The capital was then divided 50 per cent by way of fixed interest borrowing and 50 per cent by way of equity on which dividends will be paid in the normal way. Both equity and fixed-interest borrowing is provided by the Government.

It can be seen from the balance sheets that B.O.A.C.'s authorized limit in 1967 was £90 million and they had taken £35 million by means of Exchequer dividend capital, and loan capital from the Board of Trade amounted to a little over £25 million. Under a direction from the Ministry of Aviation made in June 1966, the corporation must repay a capital sum of about £2·8 million per annum in six monthly instalments, together with interest at 4 per cent on the outstanding loan. In 1966 these sums amounted to about £4 million.

In 1967 and 1968, B.E.A. was seeking similar financing arrangement to that of B.O.A.C., but this has not yet been agreed. In March 1967, the B.E.A. borrowing limit was £110 million and it had borrowed £82 million from the Board of Trade and £16 million from the Treasury.

This limit was raised in April 1968, to a maximum of £240 million plus £10 million to be raised on current account. Apart from long-term borrowing or issue of equity capital, a corporation may borrow within limits on current trading. As we have seen, both airlines make use of this form of financing.

Generation of funds

Figure 11 shows a statement of sources and disposition of funds which was published in the B.O.A.C. annual report for the year ending March 31st, 1967. Equally, if the pilots' strike loses revenues of £6 million over a period of 17 days, it would require an 80-days' strike to eliminate the corporation's profit for the year.

Figure 11

B.O.A.C. SOURCES AND DISPOSITION OF FUNDS 1966–67

Sources	*£m*
Cash flow	
Profit (excluding proceeds from disposal of assets	20·5
Obsolescence and depreciation	14·7
Amortization of training and development expenditure	1·1
Increase in provision for Joint Pension Scheme liability and other provisions	3·0
Repayment of deposit by The Cunard Steam-Ship Co Ltd	2·1
Other items	1·8
	43·2
Sale of assets	3·7
Bank loan	0·9
	47·8
Disposition	*£m*
Capital investment	
Aircraft and spares	8·2
Other fixed assets	4·3
Training and development	0·5
Purchase of Cunard interest in B.O.A.C.-Cunard Limited	11·5
	24·5
Repayment of borrowings	2·8
Increase in funds temporarily invested	17·0
Gross dividend for 1965–66	3·5
	47·8

This shows cash generated by operations of about £43 million, which was increased in the year by sale of assets for £3·7 million, and a bank loan of £·9 million. It can also be seen that profit accounted for £20 million of the cash flow, and yet we have seen that on the past record the profit in that year was unusually high and, in broad terms, if the corporation runs into the kind of losses which it had experienced in an earlier year – 1961–62 – it could find itself in a position where it was generating no cash at all.

Of the disposition of funds in 1967, £24·5 million was invested in aircraft, other assets, training, and the purchase of the balance of B.O.A.C.-Cunard. £2·8 million was paid-up borrowings, and £3·5 million paid as a dividend on the Exchequer dividend capital. As a result, the cash holding increased by £17 million, bringing short-term deposits up to £29 million.

On these figures it is possible to suggest that B.O.A.C. would not find it easy to provide £40 million per annum from its own resources – say, a total of £200 million, in the next five years. A total of £100 million (£20 million per year) could be provided if B.O.A.C. were breaking even throughout the period, as they have done in the past. If they maintain the 10 per cent profitability they might generate £150 million in cash. Cash available for investment would then be £31 million cash in hand on March 31st, 1967, plus cash generated at £30 million per annum – say, £150 million, and a further borrowing capacity and equity from the Treasury of £30 million. This gives a calculation of about £220 million available for the investment programme.

So far as B.E.A. is concerned, the President of the Board of Trade announced in the House of Commons on April 4th (during the second reading of the Air Corporations Bill as reported in *The Times*):

> 'The best estimate was that B.E.A.'s capital spending will be about [*sic*!] £199 million for the next five years, and on one major assumption, B.E.A. expected to be able to provide £86 million of this from their own resources – depreciation, sales of aircraft, and so on. Given that revenue was almost wholly determined by regulated prices, this seemed a reasonable proportion of their capital needs to be met from internal sources. They were, therefore, left with a borrowing requirement of £113 million. Adding this to the £117 million which B.E.A. borrowed up to the end of March this year, the total was £230 million towards an overall limit of £240 million specified in the Bill. The major assumption was that B.E.A. would on their revenue account break even when interests had been charged on all loans made to them. This was only a working assumption. It was entirely without prejudice in either direction to what the Government might eventually propose to fulfil the pledge of 1966. What was eventually proposed might affect some of the calculations which underlay the figures in the Bill, but in practice this would only mean that the

period the new borrowing limits would cover would be somewhat different from what was envisaged.'

Conclusion

One therefore comes to the conclusion that the two airlines are likely to be following investment programmes which will be similar in size and which will involve, over the next five years, spending of the order of £400 million to £450 million. The pledge mentioned by the Minister in the above quotation was that the Government would review the financing arrangements for B.E.A., and it seems likely that the Edwards Committee will either propose the amalgamation of the two airlines, or if not, may propose that B.E.A. should be placed on a similar financing basis to B.O.A.C. In either case the management of the airlines must give high priority to securing the full co-operation of their staff, including pilots, if they are to achieve their profitability and financial targets.

From a purely financial point of view, in comparison with other nationalized industries or other private industry, a combined organization would still not be excessively large. Nor would the financial requirements of a combined group be difficult to meet, particularly if the combined group were able to achieve a commercial profitability of the same order as that of B.O.A.C. in 1966–67. Indeed, a combined corporation, or the separate organization if B.E.A. were allowed to improve its profitability, would represent a reasonable investment for Treasury equity.

Finance and Commerce

Laurence Scott

SO far as it goes – which is not particularly far – the 'Financial record' included in this week's reprint from the account of Laurence, Scott & Electromotors Ltd, matches the chairman's comments on the 'trough' in which the company has been confined during the past decade.

Without any statement of turnover it is impossible to judge how deep the trough has been in terms of a fall in return on production. But tucked into the accounts there is evidence that the fall in return on capital employed implied in the figures in the financial record is in fact much steeper than the record shows.

Freehold land and buildings have been revalued at December 31st, 1967, to show a surplus of £1,165,272 on the net book value of £680,358. This surplus is not being written into the balance sheet at present.

Last year 'high activity and record output' brought a 24 per cent rise in profits to regain ground lost in 1966 but the chairman, Mr P. M. Tapscott, B.A., admits that profit 'remains inadequate for the size of the capital employed in the business and much effort continues to be applied to this problem'.

Various moves are being made – incentive scheme recommendations made by a joint committee of management and shop stewards will shortly be implemented, the process of manufacturing reorganization continues, and the possibility of providing common production facilities to service group factories to avoid the duplication of individual departments is being investigated.

Competition

'We have not fully anticipated the provisions of the Companies Act 1967', Mr Tapscott admits to shareholders, thought he does not explain why. The company operates in an extremely competitive market for electric motors, control gear and electrical instruments, and in some spheres business is dominated by the operations of the Central Electricity Generating Board and the extent or otherwise of its new power station programme. In that direction, orders for the main circulator motors for both Hinkley 'B' and Hunterston 'B' nuclear power stations will maintain a base load for the company over 1969–71.

In overseas markets, Australian branches of the group are judged to have secured around 90 per cent of the available large motor business for power stations in Australia. Overall the total market value for electric motors over 1 h.p. has contracted in the past four years, while the company's share of the market has grown considerably.

Taking 100 for both the market and the company's share of it in 1964, the market was judged at 86 in 1967 but the company's share at 186. On that basis the net rise in pre-tax profit between 1964 and 1967 is a fair achievement since a contracting market must mean extreme competition and narrow profit margins.

But there can be little satisfaction for a company which under current conditions has only put a net £38,000 on its pre-tax profits in the past ten years.

Export orders

Over the ten-year period, as the chairman states, capital employed has increased by 50 per cent but pre-tax profit by only 4½ per cent. Capital employed, it may be added, would have increased considerably more had the new land and buildings valuation been written into the figures.

The chairman considers that 'our resources should earn a profit in excess of £1 million'. The fact that this has not been achieved 'has been due to acute price competition arising from surplus capacity in the industry and the constant changes in national economic policy which have resulted in a highly irregular flow of orders and an uneconomic operation of plants which are by nature capital intensive'.

But Mr Tapscott considers that the company's management has 'now done much to overcome the disadvantages

LAURENCE, SCOTT & ELECTROMOTORS LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December, 1967

	Notes		*1967*		*1966*
		£	£	£	£
Trading Surplus	1		789,156		665,681
Interest on short term deposits		18,119		6,835	
Surplus arising on devaluation		29,617		—	
Surplus on realisation of Trade Investment		—	47,736	1,074	7,909
Group Profit before taxation			836,892		673,590
Taxation on profit for the year					
Corporation Tax		366,196		281,204	
Income Tax		—		856	
Overseas Taxation		2,744		606	
		368,940		282,666	
Less adjustment for prior years		3,930	365,010	—	282,666
Group Profit after taxation	2		471,882		390,924
Minority interest in Subsidiary Company			9,114		2,208
Net Profit of the Group			462,768		388,716
Transfer to General Reserve			—		100,000
			462,768		288,716
Dividends (gross)					
On Preference shares		16,575		16,575	
Interim of 3*d.* per share on the Ordinary shares		77,192		77,192	
Final of 7.35*d.* per share recommended on the Ordinary shares		189,120		180,114	
		282,887		273,881	
Income Tax deducted and retained on dividends		—	282,887	1,140	272,741
Retained Profits			179,881		15,975

LAURENCE, SCOTT & ELECTROMOTORS LIMITED

FINANCIAL RECORD

All in £000's

Year—31st December

	1958	*1959*	*1960*	*1961*	*1962*	*1963*	*1964*	*1965*	*1966*	*1967*
Gross Cash Generation	944	1,041	787	947	1,005	1,039	966	1,023	859	1,019
Depreciation	145	216	176	143	126	136	189	200	185	182
Pre-tax Profit	799	825	611	804	879	903	777	823	674	837
Taxation	410	410	300	422	480	499	389	309	283	365
Net Profit	389	415	311	382	399	404	388	514	391	472
Dividends to Shareholders	111	128	128	128	128	128	148	161	161	166
Withholding Tax	—	—	—	—	—	—	—	74	112	117
Ploughed Back	278	287	183	254	271	276	240	279	118	189
Fixed Assets	772	935	1,048	1,061	1,025	1,072	1,152	1,236	1,177	1,091
Working Capital	3,232	3,347	3,320	3,565	3,910	4,108	4,328	4,285	4,429	4,704
Capital Employed	4,004	4,282	4,368	4,626	4,935	5,180	5,480	5,521	5,606	5,795

of our industry'. Devaluation has helped exports which he describes as 'being strongly fought for'. The company's outlook for Australia and South Africa is encouraging, and it has 'valuable orders' from East Germany, Russia and Czechoslovakia.

Mr Tapscott is determined that the £1 million pre-tax profit barrier shall be broken 'by the end of this decade, despite the unexpected obstacles which are hurled repeatedly at industry'. Typical of these are the abolition of S.E.T. premium and of the export rebate which will cost the company £100,000 in a full year – an amount that literally has to be made good before the company can show maintained profits – a point that some shareholders may not fully appreciate.

More information

The directors, shareholders are told, are 'exploring with their advisers the possibilities of improving the structure of the group in order to equip it for an increasingly important place in industry. Any proposals which seem desirable will be submitted to shareholders in due course'.

Possibly the board's 'advisers' will advise the provision of more information to shareholders, so that the owners of the business can see exactly what return the company is showing on sales and on true capital employed. They cannot judge that position from the accounts as they are drawn up and presented now.

Company reports which go only part of the way to providing vital information are aggravating documents if studied too long. This company's exports 'were 25 per cent of our sales' last year but, since there is not even the slightest indication in the report of what 'our sales' were, the 25 per cent becomes more annoying than informative.

Granted the company operates in an industry which stands to be buffeted by the whims of Government and nationalized industry, and which has suffered from overcapacity, but such conditions are hardly justification for company reporting which falls short of what current usage requires.

LAURENCE,
SCOTT
& ELECTROMOTORS
LIMITED
AND SUBSIDIARY COMPANIES

BALANCE SHEETS
At 31st December, 1967

	Notes	THE GROUP		PARENT COMPANY	
		1967	1966	1967	1966
Current Assets		£	£	£	£
Stocks and work in progress excluding any profit element		4,155,413	4,679,973	4,063,519	4,537,702
Debtors and prepayments		2,829,111	3,134,655	2,441,894	2,803,096
Short term deposits		485,000	35,000	485,000	35,000
Cash at bank and in hand		315,959	186,518	247,971	165,143
		7,785,483	8,036,146	7,238,384	7,540,941
Current Liabilities and Provisions					
Creditors and accrued charges		853,562	1,031,446	779,450	945,447
Current taxation		314,065	394,116	310,561	377,346
Corporation tax payable 1st January, 1969		366,196	281,180	330,000	265,000
Bank overdraft		—	81,275	—	81,275
Provision for staff pensions		29,830	31,581	29,830	31,581
Dividend accrued on 4½% Cumulative Preference shares		5,525	5,525	5,525	5,525
Proposed final dividend on Ordinary shares		189,120	180,114	189,120	180,114
		1,758,298	2,005,237	1,644,486	1,886,288
Instalments on account of contracts		1,323,617	1,602,176	1,311,567	1,545,562
		3,081,915	3,607,413	2,956,053	3,431,850
Net Current Assets		4,703,568	4,428,733	4,282,331	4,109,091
Subsidiary Companies	3	—	—	262,671	192,211
Fixed Assets	4	1,091,199	1,177,039	1,022,736	1,123,042
		5,794,767	5,605,772	5,567,738	5,424,344
Capital and Reserves					
Share capital	5	1,933,836	1,933,836	1,933,836	1,933,836
Capital reserve	6	80,742	16,742	—	—
Revenue reserves	7	3,734,924	3,619,043	3,633,902	3,490,508
		5,749,502	5,569,621	5,567,738	5,424,344
Minority interest		45,265	36,151	—	—
		5,794,767	5,605,772	5,567,738	5,424,344

P. M. Tapscott, J. B. Wormall, *Directors*

LAURENCE, SCOTT & ELECTROMOTORS LIMITED AND SUBSIDIARY COMPANIES

NOTES ON THE ACCOUNTS

	£	1967 £	£	1966 £
1 Trading Surplus				
The trading surplus is arrived at after charging:—				
Depreciation		181,955		185,421
Emoluments of Directors of the Parent Company				
For services as Directors	5,400		5,025	
Other remuneration	34,025	39,425	30,748	35,773
Contributions to employees' pension schemes		76,540		61,888
Audit fees		3,760		3,710
2 Group Profit		£		£
The amount of the group profit dealt with in the accounts of the Parent Company is		426,281		379,871
3 Subsidiary Companies		£		£
Shares at cost less amounts written off		3		3
Amount due from subsidiary companies		262,668		192,208
		262,671		192,211

4 Fixed Assets

The Group	At Cost £	Cumulative Depreciation £	Net Book Value £	At Cost £	Cumulative Depreciation £	Net Book Value £
Freehold land and buildings	1,336,957	656,599	680,358	1,290,556	618,255	672,301
Plant and machinery	1,757,977	1,410,324	347,653	1,740,154	1,300,094	440,060
Office equipment and motor vehicles	171,898	108,710	63,188	190,445	125,767	64,678
	3,266,832	2,175,633	1,091,199	3,221,155	2,044,116	1,177,039
Parent Company						
Freehold land and buildings	1,264,971	635,951	629,020	1,231,931	601,970	629,961
Plant and machinery	1,743,791	1,403,787	340,004	1,733,195	1,295,315	437,880
Office equipment and motor vehicles	149,860	96,148	53,712	169,205	114,004	55,201
	3,158,622	2,135,886	1,022,736	3,134,331	2,011,289	1,123,042

Estimated investment grants receivable have been deducted in arriving at the cost of fixed assets, and the charge for depreciation has been calculated on the net cost.

Ignoring related investment grants, capital expenditure commitments not provided at 31st December, 1967, amounted to:

	£	£
The Group	88,000	24,000
Parent Company	55,000	24,000

5 Share Capital

Authorised:	*Issued* £
£400,000 in 4½% Cumulative Preference Shares of £1 each	390,000
£1,262,841 in "A" Ordinary Shares of 5s. each	1,262,841
£280,995 in "B" Ordinary Shares of 5s. each	280,995
£556,164 in Shares of 5s. each	—
Total share capital in issue	1,933,836

6 Capital Reserves

	£
Balance at 31st December, 1966	16,742
Capitalisation issue by subsidiary company—Printing & Paper Drives Ltd.	64,000
Balance at 31st December, 1967	80,742

7 Revenue Reserve

	Parent £	*Group* £
Balance at 31st December, 1966:		
General	2,200,000	2,200,000
Plant replacement	1,000,000	1,000,000
Profit and loss appropriation account	290,508	419,043
	3,490,508	3,619,043
Capitalisation by subsidiary Company		64,000
		3,555,043
Amount transferred from profit and loss account	143,394	179,881
Balance at 31st December, 1967	3,633,902	3,734,924

8 Australia

Assets and liabilities in Australian currency have been converted at the current rate of exchange at the balance sheet date.

CITY NOTES

DESPITE occasional minor setbacks it is difficult to see what, in the immediate future at any rate, can occasion any break in the equity market boom.

The basic ingredients, which for so long have sent investors into ordinary shares, remain the same – distrust of currencies and the continuing inflation.

Few who have followed the equity course in sound shares have any reason to regret their action and, with little competition from other investments, and capital gains tax to pay if they realize their profits, investors are to an extent locked into their portfolios.

Things are certainly moving on the economic front, but the remedies which are prescribed merely serve to emphasize the severity of the malaise. Moves for new international loans for sterling, for instance, are clear proof that world bankers prefer to render support, or at least to make provision for that support should it be necessary, rather than risk the consequences of further panic runs on the pound, the dollar and the franc.

The fundamental point about the troubles of all three countries, Britain, America and France, in this sphere is that they are importing too much because inflation has made them uncompetitive in their home markets. Despite forceful efforts, however, there is no sign of this coming to a halt or of the inflation, which is the mainspring of equity share buying, coming to an end.

* * * *

YET, with *The Financial Times* Industrial Share Index hitting repeated new peaks, brokers, bankers and other financial advisers feel the need to preach caution. Not every ordinary share can continue to scale new heights and the wise investor is selective.

After all, with 3½ per cent dividend limitation, tangible reflection of growth in actual dividend payments is not possible. How long the curb will remain it is difficult to predict. But with the Government facing a further string of wage claims, following the 'victory' of the railwaymen, they will hardly be in a position to permit greater generosity toward investors.

Latest movements to bolster sterling may mean that the authorities here can avoid another mini-budget deflationary package later this year. At the same time, however, it remains a possibility and, if it appeared, could upset calculations concerning rising industrial profits, and also about the length of time it will take companies to price themselves in again, when better conditions permit some easing of the economic restriction strings.

These are possible factors which could make for caution though they are more likely to hit specially vulnerable shares rather than the whole market, which looks like remaining under the influence of 'hedge' investment for quite a time yet.

* * * *

ONE section of the market which has been causing apprehension is that for gilt-edged which has become thoroughly demoralized in recent weeks. Any recovery has been largely technical and even 7¾ per cent returns now offered fail to attract support.

The market had held up in the hope that devaluation would make British Government stocks attractive to foreign investors. Other factors, however, have negatived any such attraction in the eyes of overseas buyers and any lingering hopes in that respect have departed. The fall is, of course, linked with the equity rise in that the failure of the Government to cut spending, to check inflation, to get to grips with the economy and so to reduce Bank rate, has destroyed confidence.

On the other hand even if there is any recovery there are many waiting to sell, while on the international front it would only require the suggestion of a further gold crisis or some similar uncertainty, to undo, in a day or so, the laborious recovery of weeks. Just as current factors do not signal any particular equity setback, so they cannot foreshadow any early recovery in gilts, particularly when even current high returns are matched by safety-first home corporation loans and topped by currently appearing debentures with over 8 per cent coupon.

RATES AND PRICES

Closing prices, Monday, July 8th, 1968

Tax Reserve Certificates: (29.11.67) Companies 4⅜%; 3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966	7%	Oct. 19, 1967	6%
Jan. 26, 1967	6½%	Nov. 9, 1967	6½%
Mar. 16, 1967	6%	Nov. 18, 1967	8%
May 4, 1967	5½%	Mar. 21, 1968	7½%

Treasury Bills

May 3 ..	£7	1*s* 10·11*d*%	June 7 ..	£7	4*s* 3·30*d*%
May 10 ..	£7	1*s* 7·13*d*%	June 14 ..	£7	3*s* 9·58*d*%
May 17 ..	£7	2*s* 4·09*d*%	June 21 ..	£7	3*s* 8·57*d*%
May 24 ..	£7	4*s* 0·76*d*%	June 28 ..	£7	4*s* 10·04*d*%
May 31 ..	£7	4*s* 9·88*d*%	July 5 ..	£7	4*s* 9·73*d*%

Money Rates

Day to day ..	5⅞–7 3/16%	*Bank Bills*	
7 days	5⅞–7¼%	2 months ..	7⅝–7 11/16%
Fine Trade Bills		3 months ..	7⅝–7 11/16%
3 months ..	8½–9%	4 months ..	7⅝–7 11/16%
4 months ..	8½–9¼%	6 months ..	7⅝–7¾%
6 months ..	8¾–9½%		

Foreign Exchanges

New York	2·38 9/16	Frankfurt ..	9·55½
Montreal	2·56 9/32	Milan	1485¾
Amsterdam ..	8·63¼	Oslo	17·01½
Brussels	119·15	Paris	11·86 13/32
Copenhagen ..	17·85½	Zürich	10·25 29/32

Gilt-edged

Consols 4% ..	52⅛	Funding 6% 1993	82⅝
Consols 2½% ..	33	Savings 3% 60–70 ..	90¾
Conversion 3½% ..	47⅛	Savings 3% 65–75 ..	74⅞
Conversion 5% 1971	92¼	Treasury 6½% 1976	96¼
Conversion 5¼% 1974	88½	Treasury 3½% 77–80	70¾
Conversion 6% 1972	94 3/16	Treasury 3½% 79–81	68⅞
Funding 3½% 99–04	51	Treasury 5% 86–89	73⅛
Funding 4% 60–90	94⅞	Treasury 5½% 08–12	74¾
Funding 5¼% 78–80	80¾	Treasury 2½% ..	33⅝
Funding 5½% 82–84	79¾	Victory 4%	96
Funding 5¾% 87–91	80½	War Loan 3½% ..	46½

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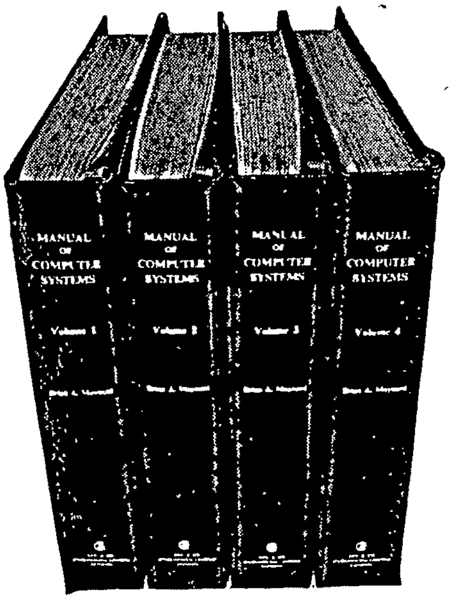
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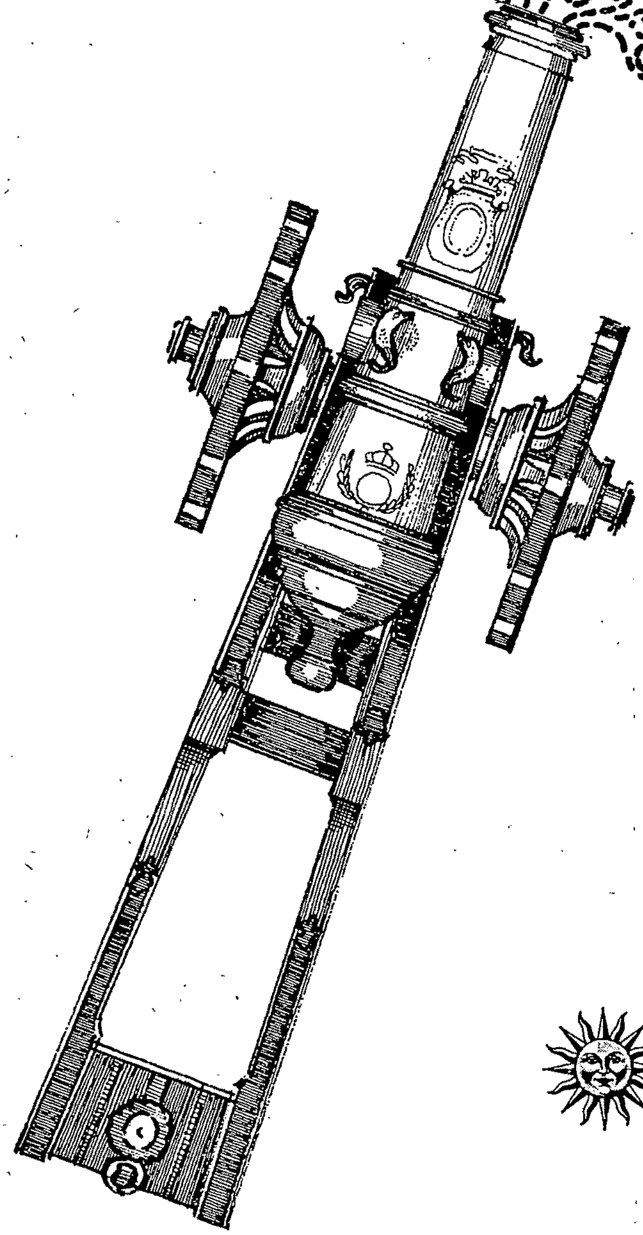

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Correspondence

Future of the Accountancy Profession

SIR, – For pure snobbishness, your correspondent (E. J. Carroll) in your issue dated June 29th, takes first prize.

In over thirty years' experience of accounting in industry, I have never yet come across an instance of an articled clerk in his final year being entrusted with quite important audits and dealing with directors and senior executives on an equal footing. For many thousands of chartered accountants (and no doubt, some certified accountants) the extent of their training has been in connection with the audit of the accounts of sole traders, partnerships and small companies, in small accountancy practices. Even in a large practice, they would rarely have seen or done enough to understand the ramifications of industrial accounting in the large company, until some years after qualifying.

His inference that members of bodies other than the Institute of Chartered Accountants cannot justify professional status is quite ridiculous, and it is time that people realized that whether an accountant is engaged in public practice or in industry, he is still practising the profession of accountancy. In other words, there are two main groups of accountant – public accountants and industrial accountants – and each is just as important as the other. In fact, I shall be surprised if the proposed scheme of integration does not take this fact into account.

I have met many chartered accountants; some are my friends and my own son is one. I have also interviewed a number of young chartered accountants wishing to enter industry but only rarely have I come across any with views which would coincide with those of your correspondent. Generally, the young qualified accountant entering industry realizes and accepts that he has a further period of training ahead of him to fit him for the practice of industrial and management accountancy.

Yours faithfully,

A. ROBERTS, F.A.C.C.A., A.C.W.A., A.C.I.S.

Harborne, Birmingham.

SIR, – I agree with the opinions expressed in recent correspondence that there *is* a difference between the accountant in public practice and those employed in industry and commerce.

There is little difference, however, between the various classes of accountant employed within the second group (those in industry and commerce) whether they be 'chartered', 'cost and works' or 'certified'. Their duties are much of a muchness, involve the same headaches and whose chief task is that of cost reduction, profit enhancement and advising the board or local management in financial matters.

The first group (those in public practice) are different because their whole approach must of necessity be different. Commercial and industrial accountants are doers and forward planners. Professional accountants are essentially scrutineers and tax specialists to whom certain individuals including shareholders, and indeed the Inland Revenue, look to safeguard their interests. (It could be argued, I suppose, that the professional accountant is required by statute, and the commercial accountant by common sense.)

Accepted, then, that there are and must be two separate species of accountant (those employed in the profession and those in industry and commerce) the problem remains of the certified accountant in public practice. So long as he is in public practice he is, in my opinion, no different from a chartered accountant. True, he need not be party to a piece of paper which 'binds' him for a number of years, but he is nevertheless equally recognized by the Board of Trade and given professional status.

If ever it came to a split down the middle between the professional and commercial accountants I wonder if the various 'chartered' correspondents, who have had so much to say in these columns on why the various accounting bodies should not be integrated, would see fit to absorb that other equally recognized professional species, the certified accountant in public practice.

Their replies could give them away.

Yours faithfully,

R. G. BASSETT, F.C.W.A., A.C.C.S.

Rochester, Kent.

Injustice to Tenants

SIR, – Your note in 'Current Affairs' last week has raised a question of some moment to the many tenants of certain long leasehold flats, normally sold for substantial lump sum premiums.

If it is illegal to sell the lease of such a flat at a premium the penalties of the Rent Acts apply – both parties can be fined, the seller loses his flat and the premium, and the buyer can resell.

There are no doubt a great many people who have bought or sold a flat since 1967 and have in all innocence broken the law and are still in jeopardy. Morover, since the position is little understood by estate agents, these flats are still being advertised for sale, and one can visualize quite a number of fresh cases of illegal acts being committed before the market finally grinds to a halt.

One cannot help but wonder why the Minister of Housing does not, by a simple statement in the House, dispel the present uncertainty. He need only state publicly that relieving legislation will be introduced. Meanwhile, accountants will wish to warn their clients of the risks they take in dealing with a long leasehold flat.

Yours faithfully,

S. M. DRAGE, F.C.A.

London W11.

The Institute of Chartered Accountants in England and Wales

Meetings of the Council

At special and ordinary meetings of the Council held on Wednesday, July 3rd, 1968, there were present:

Mr S. Dixon, President, in the Chair; Mr R. G. Leach, C.B.E., Deputy-President; Mr C. Croxton-Smith, Vice-President; Mr J. F. Allan, Mr J. A. Allen, Mr G. R. Appleyard, Sir Henry Benson, C.B.E., Sir William Carrington, Messrs G. T. E. Chamberlain, L. H. Clark, D. A. Clarke, R. W. Cox, W. G. Densem, J. V. Eastwood, S. Edgcumbe, W. W. Fea, R. W. Foad, C.B.E., J. W. G. Frith, J. P. Grenside, S. C. Hand, J. S. Heaton, J. A. Jackson, A. W. John, C.B.E., H. O. Johnson, H. Kirton, T.D., S. Kitchen, R. B. Leech, M.B.E., T.D., R. McNeil, J. H. Mann, M.B.E., B. A. Maynard, S. A. Middleton, D. S. Morpeth, T.D., W. Bertram Nelson, C.B.E., E. J. Newman, F. E. Price, C.B.E., D. W. Robertson, L. W. Robson, J. D. Russell, E. C. Sayers, R. G. Slack, H. G. Smith, G. Tattersall-Walker, C. C. Taylor, A. G. Thomas, D. C. Urry, A. H. Walton, D. N. Walton, A. S. Watson, F. J. Weeks, J. Whitehead, J. C. Montgomery Williams, E. K. Wright.

Retirements and Resignation from the Council

The Council learnt with much regret of the retirement of Mr J. H. Mann, M.B.E., M.A., F.C.A., London, and Mr F. J. Weeks, F.C.A., Bristol, and of the resignation of Mr G. G. G. Goult, F.C.A., Ipswich, from their membership of the Council.

Mr Mann had been a member of the Council since 1956 and was Chairman of the Courses Committee from June 1964 to July 1967, and Chairman of the District Societies Committee from July 1967 to date.

Mr Weeks had been a member of the Council since 1961.

Mr Goult had been a member of the Council since 1958.

New Journal – *Chartac*

In the light of the motion which was passed at the annual meeting on Wednesday, May 11th, 1968, the Council considered the issue of a free journal to all members.

In view of the desirability that any statements issued by the Council should appear in the proposed journal for the information of members before they are released for publication in the professional or general Press, the Council decided that it would be preferable (so as to avoid delays in the release of such statements) to issue a monthly rather than bi-monthly journal, normally on the second Friday after each monthly Council meeting.

The first issue of the new journal, under the title *Chartac*, will be published and circulated to all members on September 13th, 1968.

Attendance at Stock-taking

The Council approved a statement, *Attendance at Stock-taking*, for publication in the professional Press and for distribution to members in the next circulation of printed matter as U.9 in the series of Statements on Auditing in the *Members' Handbook.*

Treatment of Taxation in Accounts of Companies

The Council approved a statement, *Treatment of Taxation in Accounts of Companies*, for publication in the professional Press and for distribution to members in the next circulation of printed matter as N.27 in the series of Accounting Recommendations in the *Members' Handbook.*

Materiality

The Council approved a statement, *The Interpretation of 'Material' in Relation to Accounts*, for publication in the professional Press and for distribution to members in the next circulation of printed matter as S.10 in the series of Miscellaneous Technical Statements in the *Members' Handbook.*

Standard of Entry into Articles. Reduction in Term of Service

The Council has approved the following statement for publication:

The Council wishes to announce the following changes in the requirements relating to the standard of entry into articles and to the term of service under articles:

(i) The Ordinary National Certificate or Diploma in Business Studies will be accepted for the purpose of entry into articles of clerkship for a period of five years;

(This change may be of limited application since the Institute has announced its intention to raise, from September 30th, 1969, the minimum standard for entry into articles of clerkship to include two passes at advanced level; subject to a transitional arrangement under which those who have met the current lesser requirements at examinations held before September 30th, 1969, can apply for a preliminary certificate until September 30th, 1972);

(ii) Where the Ordinary National Certificate or Ordinary National Diploma in Business Studies is awarded, passes in which a mark of 60 per cent or more was obtained will be equated with passes at 'A' level in a G.C.E. examination;

(iii) Success in the examination for the Higher National Certificate or Diploma in Business Studies will be accepted for the purpose of granting a reduction in the period of service under articles from five to four years;

(iv) Passes at the honours level in the Leaving Certificate examination of the Republic of Ireland will be equated with passes at the higher grade of the Scottish Certificate of Education so that for the purpose of a reduction in service under articles from five to four years, two Irish honours passes will be accepted as equal to one advanced level pass and one ordinary level G.C.E. pass and three Irish honours passes will be accepted as equal to two advanced level passes and one ordinary level G.C.E. pass.

Approved Degree Courses

The Council approved the following statement for publication:

The Council has approved under relevant bye-laws degree courses leading to the award of the following degrees:

University of Aston in Birmingham – B.Sc. in Administrative Science;

Enfield College of Technology – B.A. in Business Studies;

Lanchester College of Technology – B.A. in Business Studies.

Students who successfully complete these degree courses will be eligible to claim exemption from the Intermediate examination in addition to the reduction of two years in articled service. Further details of these courses may be obtained on application to the Institute's offices.

Final Part II Examination

Advanced Accounting III paper

The Council has approved the following statement for publication:

The Examination Committee has given further consideration to the reading list for the above paper and the following statement is in substitution for that issued in April 1968:

(*d*) *Statistics*

The subject-matter required to be studied is as follows:

Nature of statistics; problems of definition and collection. Presentation of statistical data in tabular and graphical form; calculation of averages, e.g. means and medians, including simple index numbers and corresponding measures of dispersion, i.e. standard and quartile deviations.

These topics are covered in chapters 1–7 inclusive and chapter 10 of *Statistics* by Ilersic and in the corresponding sections of the following textbooks:

Connor & Morrell: *Statistics in Theory and Practice.*

Wheldon & Thirkettle: *Business Statistics and Statistical Method.*

The application of some of these topics to management and accounting data is given in *Management Information and Statistical Method*, by L. W. Shaw, which is No. 6 in the series of booklets published by the General Educational Trust of The Institute of Chartered Accountants in England and Wales.

Appointments to Committees

The following Committees have been appointed for the year 1968–69. President ex-officio member of all committees other than the Disciplinary and Investigation Committees. Deputy-President ex-officio member of all committees other than the Disciplinary, Investigation and P. D. Leake Committees.

(*c*) Co-opted members.

Articled Clerks Committee
B. E. Basden (*c*), C. V. Best (*c*), G. T. E. Chamberlain, P. H. Dobson, H. O. Johnson, G. B. Judd, R. G. Slack, R. W. Smith (*c*), A. G. Thomas, D. N. Walton, F. J. G. Whinney (*c*), J. Whitehead.

Courses Committee
J. F. Allan, P. M. Benson (*c*), I. F. Hay Davison (*c*), R. W. Foad, J. W. G. Frith, A. R. K. Hardcastle (*c*), R. O. A. Keel, B. A. Maynard, W. G. Medlam (*c*), E. C. Sayers, H. Gordon Smith, G. Tattersall-Walker, C. C. Taylor, D. H. Tonkinson (*c*), E. L. S. Weiss (*c*), J. Whitehead, R. G. Wilkes (*c*), E. K. Wright.

Disciplinary Committee
G. R. Appleyard, D. A. Clarke, P. H. Dobson, J. V. Eastwood, S. Edgcumbe, W. W. Fea, S. C. Hand, J. S. Heaton, H. O. Johnson, S. Kitchen, R. P. Matthews, K. J. Sharp, C. C. Taylor, A. G. Thomas, D. C. Urry.

District Societies Committee
G. T. E. Chamberlain, R. W. Cox, C. Croxton-Smith, P. H. Dobson, N. Cassleton Elliott (*c*), G. G. G. Goult, S. C. Hand, W. Hare, R. B. Leech, W. R. McBrien (*c*), S. A. Middleton, R. G. Slack, H. Gordon Smith, C. C. Taylor, D. N. Walton, A. S. Watson, J. C. Montgomery Williams.

Education Committee
Professor H. C. Edey (*c*), S. R. Harding, J. A. Jackson, A. W. John, M. G. Lickiss (*c*), R. P. Matthews, G. M. Metcalf (*c*), D. S. Morpeth, W. B. Nelson, E. J. Newman, E. V. Roberts (*c*), R. J. W. Stubbings (assessor), G. Tattersall-Walker, A. H. Walton, D. N. Walton.

Examination Committee
P. W. Barrows (*c*), W. L. Barrows (*c*), R. W. Cox, W. G. Densem, J. V. Eastwood, J. W. G. Frith, J. Godfrey (*c*), J. S. Heaton, D. V. House (*c*), J. A. Jackson, Sir William Lawson (*c*), R. McNeil, R. P. Matthews, B. A. Maynard, E. J. Newman, D. F. Pratten (*c*), L. W. Shaw (*c*), A. G. Thomas, A. S. Watson.

General Purposes and Finance Committee
J. F. Allan, G. R. Appleyard, C. J. M. Bennett, Sir Henry Benson, Sir William Carrington, C. Croxton-Smith, W. G. Densem, A. W. John, J. F. Knight, R. McNeil, D. S. Morpeth, W. B. Nelson, W. E. Parker, J. D. Russell, R. G. Slack, G. Tattersall-Walker, A. H. Walton, J. C. Montgomery Williams, E. K. Wright.

Internal Services Committee
N. Charlton, D. A. Clarke, W. W. Fea, S. C. Hand, W. Hare, R. O. A. Keel, R. B. Leech, F. E. Price, L. W. Robson.

Investigation Committee
J. F. Allan, J. A. Allen, C. Croxton-Smith, S. M. Duncan, J. A. Jackson, F. E. Price, D. W. Robertson, L. W. Robson, J. D. Russell, E. C. Sayers, H. Gordon Smith, J. C. Montgomery Williams.

Overseas Relations Committee
D. R. P. Baker (*c*), C. J. M. Bennett, Sir Henry Benson, W. W. Fea, J. P. Grenside, R. McNeil, W. E. Parker, D. D. Rae Smith (*c*), D. W. Robertson, J. A. P. Whinney (*c*).

Parliamentary and Law Committee
D. M. Clement (*c*), R. W. Foad, J. P. Grenside, A. J. Hardcastle (*c*), W. Hare, M. R. Harris (*c*), D. C. Hobson (*c*), S. Kitchen, E. C. Meade (*c*), D. S. Morpeth, W. E. Parker, T. B. Pritchard (*c*), D. W. Robertson, J. E. Talbot (*c*), Chairman of Technical Advisory Committee (alternate with Vice-Chairman of Technical Advisory Committee).

President's Advisory Committee
Vice-President and all Past Presidents on the Council, with power to co-opt.

Professional Standards Committee
J. A. Allen, G. T. E. Chamberlain, L. H. Clark, S. M. Duncan, J. A. Hamer (*c*), A. W. John, G. B. Judd, H. Kirton, J. F. Knight, S. A. Middleton, W. B. Nelson, J. D. Russell.

Public Relations Committee
G. R. Appleyard, R. B. Arrowsmith (*c*), D. G. Bee (*c*), R. W. Cox, S. Edgcumbe, G. G. G. Goult, G. B. Judd, H. Kirton, G. S. Major (*c*), W. G. Medlam (*c*), S. A. Middleton, D. C. Urry, E. K. Wright.

Research Committee
J. F. Allan, J. F. Bateman (*c*), Sir William Carrington, Professor H. C. Edey (*c*), J. D. Green (*c*), J. P. Grenside, J. P. Hough (*c*), E. J. Newman.

Technical Committee
C. J. M. Bennett, N. Charlton, L. H. Clark, S. M. Duncan, N. Cassleton Elliott (*c*), J. W. G. Frith, J. S. Heaton, G. N. Hunter, (*c*), R. O. A. Keel, J. W. Margetts (*c*), G. P. Morgan-Jones (*c*), D. Napper (*c*), E. R. Nicholson (*c*), A. Pinkney (*c*), A. P. Ravenhill (*c*), B. G. Rose (*c*), E. C. Sayers, H. G. Sergeant (*c*), K. J. Sharp, D. C. Urry, J. A. P. Whinney (*c*), S. P. Wilkins (*c*), Vice-Chairman of Technical Advisory Committee (alternate with Chairman of Technical Advisory Committee).

P. D. Leake Committee
President, R. W. Foad, R. P. Matthews, W. B. Nelson, A. H. Walton.

London and District Society of Chartered Accountants

The following members have been appointed by the Council to serve on the Committee of the London and District Society of Chartered Accountants for the ensuing year: J. A. Allen, H. Gordon Smith, D. C. Urry.

Technical Advisory Committee

The following Council appointees on the Technical Advisory Committee have been appointed for the year 1968–69: D. C. Burling, P. J. Cavana, M. A. Charlton, D. A. Clarke, W. F. Edwards, N. Cassleton Elliott, E. R. Nicholson, T. B. Pritchard, B. G. Rose, A. G. Thomas, G. H. Vieler, J. A. P. Whinney.

Joint Diploma in Management Accounting Services

The following members were appointed as the Institute's representatives on the Joint Diploma Board for the Joint Diploma in Management Accounting Services for the year 1968–69: C. Croxton-Smith, S. R. Harding, B. A. Maynard, L. W. Shaw.

Chairmen and Vice-Chairmen of Committees

The appointment of the following chairmen and vice-chairmen of committees for the ensuing year was reported:

Education:
Chairman, Mr A. H. Walton;
Vice-Chairman, Mr A. W. John.

Examination:
Chairman, Mr J. V. Eastwood;
Vice-Chairman, Mr J. S. Heaton.

General Purposes and Finance:
Chairman, Mr R. McNeil;
Vice-Chairman, Mr W. B. Nelson.

Investigation:
Chairman, Mr C. Croxton-Smith;
Vice-Chairman, Mr J. A. Jackson.

Overseas Relations:
Chairman, Sir Henry Benson;
Vice-Chairman, Mr W. E. Parker.

Parliamentary and Law:
Chairman, Mr D. S. Morpeth;
Vice-Chairman, Mr S. Kitchen.

Public Relations:
Chairman, Mr G. R. Appleyard;
Vice-Chairman, Mr H. Kirton.

Technical:
Chairman, Mr L. H. Clark;
Vice-Chairman, Mr S. M. Duncan.

Advanced Courses Committee for North Wales

It was reported that an invitation had been received from the Denbighshire Education Committee for the Institute to appoint a representative to a committee considering the provision of advanced courses in North Wales and that Mr R. T. Smith, F.C.A., Rhyl, had been appointed as the Institute's representative.

Registration of Articles

The Secretary reported the registration of 169 articles of clerkship during May 1968, the total number since January 1st, 1968, being 944.

Admissions to Membership

The following were admitted to membership of the Institute:

Gibson, Timothy Charles, A.C.A., *a*1968; 10 Pembridge Mews, London W11.
Gordon Stewart, Julian Alastair, M.A., A.C.A., *a*1968; 14 Queensgate Terrace, London SW7.
Kshirsagar, Eknath Atmaram, A.C.A., *a*1968; with Peat, Marwick, Mitchell & Co, 11 Ironmonger Lane, London EC2.
Rayner, Andrew Piers Courtauld, B.A., A.C.A., *a*1968; 1 Egerton Gardens, London SW3.

Fellowship

The Council granted applications from ten associates to become fellows under clause 6 of the supplemental Royal Charter.

Incorporated Accountant Members becoming Chartered Accountants

The Council granted applications from the following incorporated accountant members to become chartered accountants under bye-law 128 or 129:

Crease, Graham, F.C.A., Johannesburg.
Houlding, Robert George, A.C.A., Como.
Potter, Joseph Bateman. F.C.A., Amman.

Members commencing to Practise

The Council received notice that the following members had commenced to practise:

Ali, Syed Fazle, A.C.A., *a*1965; *S. F. Ahmed & Co, Red Cross Building, 114 Motijheel, Dacca 2, East Pakistan.
Aruliah, Thurairatnam, A.C.A., *a*1962; Aruliah & Co, 246 Hornsey Road, London N7.
Bedford, Anthony Lawrence, A.C.A., *a*1966; R. Garner & Co, 4 Loseby Lane, Leicester.
Bellamy, Dennis Raymond, A.C.A., *a*1965; *Jackson & Godley, 4A Queen Street, Worksop, Notts.
Bennett, Derek Basil, F.C.A., *a*1952; P.O. Box 223, Karoi, Rhodesia.
Bennett, Keith Lester, F.C.A., *aS*1953; Moore, Stephens & Co, Bucklersbury House, Bucklersbury, London EC4.
Carey, David John, A.C.A., *a*1968; D. J. Carey & Co, 7 Basket Gardens, Eltham, London SE9.
Colclough, George Donald, A.C.A., *a*1968; 33–35 Broad Street, Hanley, Stoke-on-Trent, Staffs.
Cuby, Solomon Sydney, A.C.A., *a*1968; 196 Sutherland Avenue, Maida Vale, London W9.
Currimbhoy, Nazir Gulamali, A.C.A., *a*1965; *S. F. Ahmed & Co, Red Cross Building, 114 Motijhell, Dacca 2, East Pakistan.
Dallison, John Peter, A.C.A., *a*1960; Agar, Bates, Ledsam & Co, 106 Edmund Street, Birmingham 3.
Day, Kenneth Roy, A.C.A., *a*1960; *Lloyd-Allen, Day & Co, 23A Church Road, Parkstone, Poole, Dorset.
Dexter, Alan Michael, A.C.A., *a*1964; 37 Cuffley Hill, Goffs Oak, Hertfordshire.
Dunn, Peter Jeremy Russell, A.C.A., *a*1963; Chamberlain, Turton & Dunn, Clumber Avenue, Sherwood Rise, Nottingham, NG5 1AH.
Evans, Teifion Morgan, B.SC.(ECON.), A.C.A., *a*1968; J. H. Hugill & Co, 161 Station Road, West Drayton, Middlesex.
Fisher, Michael Alan, A.C.A., *a*1963; P. A. Thomas & Co, Berkeley Square House, London W1.
Fletcher, William Edward, A.C.A., *a*1963; †Arthur Young McClelland Moores & Co, 63 Temple Row, Birmingham 2.
Freeman, Alan Douglas, B.A., F.C.A., *a*1951; 'Sallow Copse', Silchester, Reading, Berks.
Graham, Donald Henry, A.C.A., *a*1968; Jackson, Gould & Co, 65 Stricklandgate, Kendal, Westmorland.
Griffiths, John Hugh Colin, A.C.A., *a*1962; *J. F. Anderson & Partners, P.O. Box 33066, Takapuna, New Zealand.
Groseley, Reginald Keith, A.C.A., *a*1966; *Harold D. Morley & Co, 20–21 High Street, Rowley Regis, Warley, Worcs.
Hobson, William, F.C.A., *a*1930; 8 Kingston Drive, Sale, Cheshire.
Hopper, Geoffrey, A.C.A., *a*1968; Baines, Goldston & Jackson, 43 Yarm Lane, Stockton-on-Tees, Tees-side.
Jarvis, John Eric, F.C.A., *a*1967; Foreman, Frank & Co, 3 St Andrew's Place, Lewes, Sussex.
Jeffries, Peter Jocelyn, A.C.A., *a*1963; West, Wake, Price & Co, 6 Broad Street Place, London EC2.
Johns, Philip Shane, A.C.A., *a*1959; Pearson, May & Co, 29 Gay Street, Bath, Somerset.
Kent, Brian Edward, A.C.A., *a*1968; *West Barrett & Co, 41 Beach Road, Littlehampton, Sussex.
Kent, Robert Arthur, A.C.A., *a*1967; Griffith & Miles, Royal Building, 10 Princess Way, Swansea.

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a Indicates the year of admission to the Institute.

aS Indicates the year of admission to The Society of Incorporated Accountants.

§ Means 'incorporated accountant member'.

Firms not marked †, ‡ or * are composed wholly of chartered accountant members of the Institute.

† Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Kiernander, John Anthony, A.C.A., *a*1968; 238 Kew Road, Richmond, Surrey.
Lane, Henry, F.C.A., *a*1950; 32 Cornwall Road, Walsall, Staffs.
Lloyd, Anthony Joseph, A.C.A., *a*1962; West, Wake, Price & Co, 6 Broad Street Place, London EC2.
McNally, Timothy John, A.C.A., *a*1958; 12 Northgate Street, Ipswich, Suffolk.
McPherson, Keith, A.C.A., *a*1968; White, Withers & Co, 30B St Leonards Road, Bexhill-on-Sea, Sussex.
Osman, Abdul Aziz, A.C.A., *a*1966; A. A. Osman & Co, Glyn Jones Road, P.O. Box 599, Blantyre, Malawi.
§Peters, George John, A.S.A.A., *a*1963; P.O. Box 2573, Johannesburg.
Peters, Roger William, A.C.A., *a*1966; R. W. Peters & Co, 95 Heath Road, Hounslow, Middlesex.
Preston, David Arthur, B.SC.(ECON.), A.C.A., *a*1964; J. H. Hugill & Co, Chansitor House, 38 Chancery Lane, London WC2.
Price, Jack, F.C.A., *a*1955; *McCulloch Butler & Spence, Locke Street, P.O. Box 100, Wairoa, Hawkes Bay, New Zealand.
Price, Keith Eric, A.C.A., *a*1961; Keith E. Price & Co, 'Spring Bank', Wistanstow, Craven Arms, Shropshire.
Roadnight, John Leonard, A.C.A., *a*1965; 32 Wyatts Drive, Thorpe Bay, Essex.
Royle, Gilbert, F.C.A., *a*1933; Broderick, Boardman & Co, Duchy Chambers, 2–4 Clarence Street, Manchester 2.
Royle, John Cartwright, B.COM., A.C.A., *a*1968; Broderick, Boardman & Co, Duchy Chambers, 2–4 Clarence Street, Manchester 2.
Rudd, Anthony Nigel Russell, A.C.A., *a*1968; Russell Rudd & Rudd, 19 West Bank Avenue, off Duffield Road, Derby, DE3 1AQ.
Rudd, John Graham Russell, A.C.A., *a*1966; Russell Rudd & Rudd, 19 West Bank Avenue, off Duffield Road, Derby, DE3 1AQ.
Sanger-Davies, Michael Joseph, A.C.A., *a*1962; Whitehill Marsh Jackson & Co, 103 Promenade, Cheltenham, Glos.
Smith, Richard John, A.C.A., *a*1962; Cullum Hill & Co, 1 Grimstone Villas, Houndiscombe Road, Plymouth.
Spiteri, Norman Alfred, A.C.A., *a*1964; Norman Spiteri & Co, P.O. Box 550, 38/2 Zachary Street, Valetta, Malta.
Stride, Thomas Garnet, F.C.A., *aS*1957; Moore, Stephens & Co, Bucklersbury House, Bucklersbury, London EC4.
Taylor, James Francis, F.C.A., *aS*1956; 11A West Park Avenue, Ashton, Preston, PR2 1UH.
Vevers, Wilfred Peter, A.C.A., *a*1964; *Lanham & Francis, 8 Church Street, Yeovil, Somerset.
Walton, Malcolm, A.C.A., *a*1962; Bowman, Dawes & Co, 40 Brazennose Street, Manchester 2.
West, Kenneth Hall, F.C.A., *a*1950; 164A Station Road, Addlestone, Surrey.
Wilscher, Kenneth Frank, F.C.A., *aS*1951; Mitchell & Plummer, 26 Victoria Street, Luton, Beds.
Woodthorpe, Anthony Edmund, A.C.A., *a*1964; Russell, Ohly & Co, 94 Church Road, Hove, Sussex, BN3 2EF.
Yates, Anthony, A.C.A., *a*1958; Keeling & Co, Northway House, High Road, Whetstone, London N20.
Young, John Cedric Keith, A.C.A., *a*1965; Cooper, Scott & Co, Capel House, 62 New Broad Street, London EC2.

Re-admissions to Membership

It was reported to the Council that the following re-admissions, made at the Council Meeting on June 5th, 1968, subject to payment of the amounts required, had become effective:

Bailey, Geoffrey Thomas, F.C.A., The White Cottage, 24 Streatham Drive, Exeter, Devon.
Shelvin, Peter Borrowdale Spencer, A.C.A., B. C. Bingham & Co, 1A Horn Lane, Acton, London W3.

Resignation

The Council accepted the resignation from membership of the Institute of:

Taylor, Joseph Stanley Guest, F.C.A., *a*1927; 11 Granby Road, Stockport.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Kettle, Sir Russell, F.C.A., Woking, Surrey, a member of the Council from June 1940, to February 1955, and President of the Institute for the year 1949–50.
Birkbeck, Mrs Jennie, F.C.A., London.
Boase, Cyril, F.C.A., Liverpool.
Burton, Lawrence, F.C.A., Liverpool.
Chartres, Jack William Henry, F.C.A., Kano, Nigeria.
Collins, Reginald Charles, F.C.A., Margate.
Emery, Frank, F.C.A., Eccles, Lancs.
Evershed, Valentine Wilfrid, F.C.A., Guildford.
Gibson, Ralph Maurice, F.C.A., Loughton, Essex.
Gordon, David George, F.C.A., London.
Holt, Frank, M.M., F.C.A., Colchester.
Howorth, Thomas, F.C.A., Chislehurst, Kent.
Hunton, Robert William, F.C.A., Liverpool.
Jackson, George Gilbert, F.C.A., Skipton.
Janney, Robert Turnbull, F.C.A., Birmingham.
Knowles, Charles Gillard, F.C.A., London.
Lister, George Albert, F.C.A., Huddersfield.
Ogden, John Patrick, F.C.A., London.
Oliver, Edgar, M.C., F.C.A., Newark, Notts.
Owen, John Pardoe, F.C.A., Leicester.
Pode, Sir Julian, F.C.A., J.DIP.M.A., London.
Pratley, Frank Alan, F.C.A., London.
Plevey, Arthur Birt, F.C.A., Bewdley, Worcs.
Price, Edwin Horace, F.C.A., London.
Raiji, Naishadh Maganrae, F.C.A., Bombay, India.
Scott, Arthur, F.C.A., Colwyn Bay.
Sedgwick, John, F.C.A., Cape Town, S. Africa.
Sheriff, Sidney Herbert, M.B.E., F.S.A.A., London.
Shoppee, Stanley Hawkswell, F.C.A., Dunstable.
Standley, Leslie George, F.C.A., Luanda, Angola.
Walker, Bernard, F.C.A., Great Yarmouth.
Watson, John William, F.C.A., Scarborough.
Whyte, John Hanson, F.C.A., South Shields.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

Accounting: the basis for business decisions; by W. B. Meigs and C. E. Johnson: 2nd edn. New York. 1967. (McGraw-Hill, 88*s* 6*d*.)
Accounts for Beginners; by C. Rundle. 1968. (Allman, 30*s*.)
Charting the British Economy; by Barbara Marlow. 1968. (Longman/Institute of Economic Affairs, 30*s*.)
Company Law; by K. Smith and D. J. Keenan. 1966. Supplement. 1968. (Pitman, 30*s*.)
Contrasts in Nationalised Transport since 1947; by G. Polanyi. 1968. (Institute of Economic Affairs, 21*s*.)
Cordery's Law Relating to Solicitors; by – Cordery: 6th edn. by G. J. Graham-Green and D. S. Gordon. 1968. (Butterworths, 175*s*.)
Directory of Grant-making Trusts. (National Council of Social Service). 1968. (N. C. of S. S., 80*s*.)
Economics for Pleasure; by G. L. S. Shackle: 2nd edn. Cambridge. 1968. (C.U.P., 32*s* 6*d*.)
Financial Decision-Making; ed. by E. J. Mock. Scranton, Pennsylvania. 1967. (International Textbook Company, 100*s*.)
Financial Planning and Control in the Meat Industry. (Price Waterhouse & Co). Chicago, Illinois. 1967. (American Meat Institute, 61*s*.)
Improving Business Results; by J. W. Humble. Brussels. 1967. (Management Centre Europe, 57*s* 6*d*.)
Institute of Directors Guide to Europe. (Institute of Directors). 1968. (Thornton Cox, 70*s*.)
The Law of Trusts: a statement of the rules of law and equity applicable to trusts of real and personal property; by G. W. Keeton: 9th edn. 1968. (Pitman, 80*s*.)
Managerial Finance; by J. F. Weston and E. F. Brigham: 2nd edn. New York. 1966. (Holt, Rinehart & Winston, 104*s*.)
Practical Financial Statement Analysis; by R. A. Foulke: 6th edn. New York. 1968. (McGraw-Hill, 102*s* 6*d*.)
A Practical Guide to Compulsory Purchase and Compensation: 2nd edn; by J. K. Boynton. 1968. (Oyez, 30*s*.)
Progression Handbook; by E. Jaques. 1968. (Heinemann, 35*s*.)
Psychology in Management; by M. Haire: 2nd edn. New York. 1964. (McGraw-Hill, 55*s* 6*d*.)
Sharing the Profits; by Acton Society Trust and G. Naylor. 1968. (Garnstone Press, 35*s*.)
Stores Accounts and Stores Control; by J. H. Burton: 6th edn. 1968. (Pitman, 60*s*.)
Towards a Sociology of Management; by Sir G. Vickers. 1968. (Chapman & Hall, 30*s*.)

Notes and Notices

THE ACCOUNTANT

Index to Vol. CLVIII

January to June 1968

The general index to Vol. CLVIII – January to June 1968 – is published with the present issue. The parts of this volume, with the index, can now be sent for binding.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Notification of Examination Results

Subject to unforeseen circumstances, lists of candidates successful at the May 1968 Final Part I and Part II examinations will be displayed at the temporary offices of the Institute, 56/66 Goswell Road, London EC1, on Tuesday, July 23rd. The lists will be published in *The Accountant* of July 27th.

In addition, each candidate may expect to receive by post at the earliest on Monday, July 22nd, a notice stating whether he has passed or failed, together with details including any prize awarded or, if unsuccessful, particulars of his performance in individual papers.

The Institute cannot give information of results by telephone or telegram and cannot entertain any inquiry as to whether results are available.

PROFESSIONAL NOTICES

MESSRS J. B. BOYD, WRIGLEY & CO, Chartered Accountants, of 55 Brown Street, Manchester 2, announce that Mr JOHN FLETCHER BARTON, F.C.A., retired from the partnership on June 30th, 1968, after being associated with the partnership since its formation in 1912. Mr JOHN JAMES MILLER, A.C.A., has joined the partnership from July 1st, 1968.

MESSRS COOPERS & LYBRAND, London, and LOVELOCK & LEWES, Calcutta, announce that the interests of COOPERS & LYBRAND in India will be represented by LOVELOCK & LEWES.

MESSRS GANE, JACKSON, NELSON & FREEMAN, Chartered Accountants, of City-Gate House, Finsbury Square, London EC2, announce that as from July 1st, 1968, they have merged their practice with that of the London and Richmond partners of Messrs W. T. WALTON & SON, Chartered Accountants, and that as from that date they will be joined in partnership by Mr S. A. FORSTER, F.C.A., Mr R. D. CURTIS, F.C.A., and Mr K. C. BARLOW, F.C.A. In addition, as from the same date, Mr J. HAY, A.C.A., and Mr J. S. GROVES, F.C.A. (each of whom is respectively one of the partners in the Liverpool and Hartlepool firms of Messrs W. T. WALTON & SON), have become partners in the firm.

MESSRS W. T. WALTON & SON, Chartered Accountants (London firm), announce that as from July 1st, 1968, they have merged their practice with that of the partners of MESSRS GANE, JACKSON NELSON & FREEMAN, Chartered Accountants, of City-Gate House, Finsbury Square, London EC2. As from that date the London firm will practise from the above address and their Richmond office will continue at 26 Sheen Road, Richmond, Surrey.

MESSRS W. T. WALTON & SON, Chartered Accountants (Liverpool firm), and Messrs J. OAKLEY WORRALL & CO, Chartered Accountants, both of 133–135 The Albany, Old Hall Street, Liverpool 3, announce that as from July 1st, 1968, they have amalgamated their practices. The Liverpool partners will be Mr W. S. DYE, F.C.A., Mr J. OAKLEY WORRALL, F.C.A., Mr H. SHACKCLOTH, F.C.A., and Mr J. HAY, A.C.A., who will be joined by Mr J. O. ELPHICK, F.C.A., and Mr R. D. CURTIS, F.C.A., who are partners in the London firm, and Mr J. S. GROVES, F.C.A., a partner in the Hartlepool firm. For the time being both firms will continue to practise under their present names.

MESSRS FRANK IMPEY, SHERREY, GARLAND & CO, Chartered Accountants, of King Edward House, New Street, Birmingham 2, announce that arrangements have been made for the amalgamation of their practice with that of Messrs SQUIERS & CO, Chartered Accountants, of Rutland House, Edmund Street, Birmingham 3, to take effect from July 1st, 1968. The combined firm, consisting of the present partners of both firms will, for the time being, continue to practise at the above addresses under the name of IMPEY, GARLAND & CO (Incorporating SQUIERS & CO).

MESSRS KERR, MACLEOD & MACFARLAN, Chartered Accountants, of 100 Wellington Street, Glasgow C2, announce that Mr JOHN G. HUNTER, C.A., who has been a member of their staff for a number of years, has been assumed as a partner as from July 1st, 1968.

MESSRS J. M. PITMAN & CO announce that they have been joined in partnership by Mr D. J. CAKEBREAD, F.C.A., A.T.I.I., as from July 1st, 1968. On the same date Mr R. J. CLEMENT, A.C.A., was also admitted to the partnership. The firm's name has been changed to PITMAN, CAKEBREAD & CO, and an office has been opened at Charter House, Claremont Road, Surbiton, Surrey, additional to the Teddington and Tottenham Court Road, London offices.

MESSRS STOTT & GOLLAND, Chartered Accountants, of 134 Drake Street, Rochdale, announce that with effect from July 1st, 1968, Messrs ALAN WILD, F.C.A., and JOHN ORMEROD CLEGG, A.C.A., both of whom have been with the firm for a number of years, have been admitted as partners.

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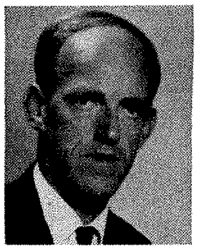
APPOINTMENTS

Mr B. S. Dodwell, F.C.A., assistant to the finance director of Dodwell and Co Ltd, has been appointed to the board of that company.

Mr R. V. Edward, C.A., has been appointed to the board of Cedar Holdings Ltd.

Mr R. D. Haxby, B.SC.(ENG.), J.DIP.M.A., F.C.W.A., financial director of Woodall-Duckham Ltd, has been appointed to the board of Woodall-Duckham Group Ltd


Mr R. D. Haxby

Mr C. W. F. Parker

Mr C. W. F. Parker, F.C.A., financial director of Birmingham Small Arms Co Ltd, Triumph Motor Cycle Division, has been appointed commercial director of the company. He will be succeeded as financial director by Mr D. Johnston, F.A.C.C.A., who joins B.S.A. from the A.E.I. Power Group, Manchester, where he has been group chief accountant since 1963.

Mr J. R. Potts, F.C.A., F.C.W.A., J.DIP.M.A., has been appointed financial director of G. N. Haden & Sons Ltd.

Mr Frank Stafford, F.C.A., has been elected to the board of WCB Containers Ltd.

Mr E. Sweeting, F.C.A., has been appointed a director of Goodlass Wall and Co Ltd.

Mr D. R. Taylor, A.I.M.T.A., has been appointed chief accountant of the West Pennine Water Board.

DOUBLE TAXATION: SWEDEN

A Supplementary Protocol amending the double taxation convention between the United Kingdom and Sweden was signed on June 27th. The protocol is subject to ratification.

SPECIAL COMMISSIONERS OF INCOME TAX

Notice of Appeal Meetings

The Special Commissioners of Income Tax have announced that, in order to make savings in work and costs, it has been decided to discontinue the use of the recorded delivery service of the Post Office when issuing notices of appeal meetings. In future, notices of appeal meetings of the Special Commissioners will be issued by ordinary post.

The Commissioners state, however, that as accountants and solicitors may have relied upon the recorded delivery service to ensure that notices of meetings are brought to the attention of the right person and not overlooked, arrangements have accordingly been made for the use of a special envelope when notices are issued. The envelope bears a rectangular black flash on the left-hand edge embodying the letters 'T.H.' (for Turnstile House, the address of the Special Commissioners) for easy recognition.

S.E.T. AND HOTELS

Extension of Areas eligible for Relief

The Treasury has announced proposals to extend the areas in which hotels are to be eligible for relief from selective employment tax under Clause 47 of the Finance Bill (this clause provides for full refund of S.E.T., to hotels in certain rural parts of development areas).

Amendments passed at the report stage of the Finance Bill extend the concession to the whole of Scotland outside the central industrial belt, with the exception of the Aberdeen and Dundee areas and certain parts of the Largs and Ardrossan areas. Also included are the Carlisle and Brampton areas in the Northern Region which lie between the Lake District and the Scottish Border.

Details of the precise extent of these areas are available from the appropriate regional office of the Department of Employment and Productivity.

COMMITTEE ON CONSUMER CREDIT

The President of the Board of Trade announced last week that, in consultation with the Chancellor of the Exchequer, he is appointing a committee under the chairmanship of Lord Crowther (formerly Sir Geoffrey Crowther) to make a wide-ranging review of consumer credit.

It is understood that the inquiry will cover an extensive range of credit facilities – e.g. conventional hire purchase and other forms of deferred payment terms available from traders and financial institutions, personal loans from banks and finance houses, check trading, money lending, and lending by insurance companies and by second mortgages (when not linked with property improvement or repair). Borrowing for the purchase, improvement or repair of property, however, will be excluded. The inquiry will be confined to credit for individuals and will not extend to credit for industry or commerce.

BUSINESS GAME FILM

A colour film of the first computer-based business game for sixth formers arranged by The Institute of Chartered Accountants in England and Wales in co-operation with International Computers Ltd, and referred to in previous issues of *The Accountant*, is now available for loan or purchase from the Institute's offices.

The business game, programmed for I.C.L.'s 1900 computer, was designed to bring to sixth formers a knowledge of how business management works and the new 16 mm film not only illustrates the way in which the business game brought to life the problems faced by the various 'boards of directors', but also fills in the background with scenes filmed in factories, farms, newspaper offices and the City to show

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the challenge of the accountant's work.

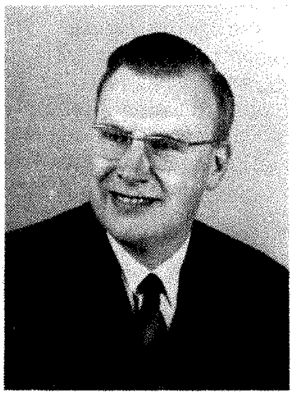
With a running time of twenty-two minutes, it is hoped that the film, and the business game on which it is based, will bring home to sixth formers, students and potential members of the Institute the interest and variety of the chartered accountant's work.

The film is available on loan (for not more than three days) or purchase (£59 10s per copy) from the Information officer at the Institute's offices, City House, 56–66 Goswell Road, London EC1.

SHEFFIELD AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

New President

Mr M. Sheppard, F.C.A., J.P., senior partner in the firm of Knox, Franklin & Co, Chartered Accountants, of Sheffield, is the new President of the Sheffield and District Society of Chartered Accountants.



Forty-three years of age, Mr Sheppard was educated at King Edward VII School, Sheffield, and was subsequently articled to the late Mr G. E. Greening, F.C.A., of Franklin, Greening & Co, of Sheffield. His period of articles was interrupted by the Second World War when he served as a navigator in the Royal Air Force. After the war, he returned to Franklin, Greening & Co, and was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1949. Mr Sheppard became a partner in the firm in 1955 which was formed into Knox, Franklin & Co by amalgamation in 1965.

For seven years, from 1955 to 1962, he was secretary of the Society and has served on its committee (except for a break of two years) since 1954. He is at present the Society's representative on the Institute's Technical Advisory Committee.

Appointed a Justice of the Peace in 1966, Mr Sheppard is chairman or financial director of a number of companies, a member of the Catenian Association, chairman of Padley Housing Association and Aid Society and an active lay member of the Sheffield Scout Association.

Other officers elected for the ensuing year are:

Vice-President: Mr R. Firth, F.C.A., J.P.
Secretary: Mr D. B. Shaw, F.C.A., 22 Norfolk Row, Sheffield, S1 2PA.
Treasurer: Mr A. M. C. Staniforth, B.A.(COM.), A.C.A.
Dinner Secretary: Mr J. Burgoyne, F.C.A.
Auditor: Mr J. Rowan, F.C.A.
Committee: Messrs P. W. Allott, B.A.(ECON.), A.C.A., M. A. R. Johnson, M.A., A.C.A., D. King, F.C.A., M. J. Mallett, F.C.A., and H. Womersley, F.C.A.

Annual Report

Total membership of the Sheffield and District Society of Chartered Accountants at December 31st, 1967, numbered 709, according to the Society's eighty-sixth annual report.

The report states that a full programme of lecture and discussion meetings took place during the year, including a discussion on 'Analysis machines used in the preparation of accounts from incomplete records' and lectures on 'The Betterment Levy' and 'Corporation tax – close companies'. The discussion meetings proved to be of particular interest and members enjoyed lively discussions on various matters.

Luncheon meetings were again held in Sheffield, Chesterfield, Doncaster and Rotherham during the year, and all these functions were well attended. Successful candidates in the Final examination were invited to meetings held in Sheffield in October and April to meet the President, Committee and members of the Society. These meetings were arranged to assist in creating interest in the Society and have resulted in increased membership.

Courses of the Joint Tuition Committee were held at Sheffield College of Technology. This college arranged introductory courses for newly articled clerks and revision courses before the Institute's Intermediate and Final examinations. The report mentions that not enough articled clerks were taking advantage of these courses and three out of the eight projected courses had to be cancelled due to lack of support.

About sixty articled clerks, however, benefited from the lectures held on Saturday mornings by the Joint Tuition Committee. Lecture topics covered all areas of the Institute's syllabus and in some cases were at post-graduate level.

DECIMAL NEWSLETTER

The first issue of the Decimal Currency Board's newsletter appeared last week. Aimed principally at the business world, 100,000 copies are being distributed to firms all over the country, mainly through trade associations and other representative bodies.

A prominent feature in the first issue advises firms not to delay their preparation for D-day; a 'decimalization officer' at senior level should be appointed now to consider the implications. Other articles describe the new coins, the time-table for decimalization and the role of the Decimal Currency Board.

Future issues will feature a checklist for management on preparations for D-Day, the Board's first annual report and preliminary research activities carried out by the Board. It is envisaged that the four-page newsletter will appear approximately every six weeks.

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SALES & VALUATIONS
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Betterment levy

Any person on whom a notice of assessment of betterment levy is served may serve on the Land Commission a counter-notice, stating the grounds of objection, including a statement of the allegedly correct amount if a reduction is sought. The time limit for action is two months although the Land Commission may extend this. So long as this counter-notice is in force, either side may require the objection to be referred to the Lands Tribunal. Such a reference is nullified if the parties come to an agreement whereby the notice of assessment is withdrawn, confirmed or varied in a particular manner (section 48, Land Commission Act 1967).

On any such reference the duties of the Lands Tribunal are to consider the matters to which the objection relates. The notice of assessment may be upheld or discharged and the principal amount of betterment levy therein specified may only be increased if it was calculated (on the basis of an amount of compensation less than that ultimately determined) in the limited circumstances dealt with in Schedule 10 of the Land Commission Act. With this exception, the Lands Tribunal may not increase such an assessment.

It may be observed that the power of the Commission to serve further notices of assessment in respect of the same chargeable act or event is subject to a six-year time limit so far as indicated by section 44 and is limited by section 55 to a mistake of fact made in connection with the original notice of assessment, the discovery of any fact not known to the Commission at the time when that notice was served, and a clerical or mathematical error in any calculation made in that connection. Moreover, the Tribunal's powers to vary a notice do not extend to the charging date or the offer of postponement of collection or payment by instalments in accordance with section 45.

Membership of Lands Tribunal

The Lord Chancellor is to appoint the President of the Lands Tribunal and such number of other members as he may determine (recently there were six members) who need not be drawn exclusively from the legal profession but include persons who have experience in the valuation of land (on which point the President of the Royal Institution of Chartered Surveyors is to be consulted). The jurisdiction of the tribunal can be, and often is, exercised by a single member, selection being the responsibility of its President.

Section 3 (4) of the Lands Tribunal Act 1949 states that a decision of the Lands Tribunal is final. However, any person aggrieved by the decision as being erroneous in point of law may within the prescribed time require the tribunal to state and sign a case for the decision of the Court of Appeal. This phraseology has a parallel in section 64 of the Income Tax Act 1952.

The Lands Tribunal Rules 1963 (S.I. No. 483) are drafted in terms sufficiently general to accommodate references in subsequent legislation. Thus the expression 'appeal against a determination' means an appeal against a determination of any question by any Government department, authority or person from which an appeal lies to the Lands Tribunal, and to which appeal the determining authority is the respondent. The 'interested person' is the one who has the right to initiate the appeal against the determination. The rules prescribe the style of appeals which have to be sent to the registrar, whose office is at 3 Hanover Square, London W1.

Proceedings before the tribunal

Rule 40 states that in any proceedings before the Lands Tribunal, any party may appear and be heard either in person, or by counsel or solicitor, or by any other person allowed in lieu. In general the tribunal is to sit in public and at the instance of the President, the aid of assessors may be enlisted. Again, not more than one expert witness on either side is to be heard unless otherwise allowed. Moreover, the documentation relating to the evidence to be given by such a witness is to be appropriately circulated to those concerned. The tribunal may, indeed, inspect the premises in question although not without letting the parties know so that they can attend.

Any party to any proceedings is to supply to the registrar, on his request, any document or other information which the tribunal may require and which it is in his power to furnish. The other side may inspect and copy such particulars. Rule 44 declares that it is not to be deemed to require the furnishing of any information which it would be contrary to the public interest to disclose but the possible unreasonable extension of this saving clause has been cut down by the decision of the House of Lords in *Conway v. Rimmer* ([1968] 2. W.L.R. 998), where Lord Upjohn quoted the dictum that 'the test must be that the information cannot be disclosed without injury to the public interest, not that the documents are confidential or official'.

Case law

Proceedings before the General or Special Commissioners of Income Tax are covered by declarations of secrecy but it has been suggested that suitably condensed reports should be published. The majority opinion expressed by the Royal Commission on Taxation (Cmd 9474, at page 291), was strongly against this proposal, although the comment was made that where there is information that can usefully be made public, the action to be taken is part of the public relations work of the Inland Revenue department. It may be thought that as the department is a party to all proceedings, it has an unfair advantage over taxpayers generally who are excluded from all but their own hearings.

The Lands Tribunal

by H. S. A. MACNAIR, F.C.A.

THE Lands Tribunal Act 1949 was passed in order to establish new tribunals to determine certain questions relating to compensation for the compulsory acquisition of land and other matters. Section 1 (3) (*a*) states that there shall be referred to and determined by the Lands Tribunal (which has not as yet been invested with jurisdiction for Scotland) any question which is directed, in whatever terms and by any Act (including a local or private Act), to be determined by one or more persons selected from the panel of referees appointed under Part I of the Finance (1909–10) Act 1910, whether the reference is mandatory or in the absence of agreement to the contrary.

This mention brings echoes of the controversial tax on land values and Part I of the latter Act is headed 'Duties on Land Values'. Harking back to section 10 (1) of the Finance Act 1894 it will be found that any person aggrieved by the decision of the Commissioners of Inland Revenue with respect to the amount of estate duty claimed by them, whether on the ground of the value of any property or the rate charged or otherwise, might appeal to the High Court in the prescribed manner, subject to payment of the duty in dispute or the giving of appropriate security.

Problems of valuation

In anticipation of the ill-fated land value arrangements a right of appeal was granted by section 33 of the 1909–10 Act as regards determinations by the Commissioners of the total value or site value of any land. To this end it was laid down that an appeal was to be referred to such one of the panel of referees thereby set up as might be selected in accordance with the relevant rules.

Section 60 (3) then modified the earlier Act by withdrawing the right of appeal where the question in dispute was one of the value of any real (including leasehold) property. Instead, the aggrieved taxpayer was granted the right to appeal under the land value rules of Part I. It may serve to indicate the probable area of dispute if it is recalled that section 7 (5) of the 1894 Act required the principal value of any property to be estimated to be the price which, in the opinion of the Commissioners, such property would fetch, if sold in the open market at the time of the death of the deceased.

This formula was reviewed by the House of Lords in *Duke of Devonshire's Trustees v. C.I.R.* (45 A.T.C. 472) with reference to a decision of the Lands Tribunal that an estate of over twenty thousand acres required to be valued on the basis of a sale in separate units over a period of years, and this decision was upheld after examination of the authorities.

It may be observed here that section 60 (2) of the 1909–10 Act provided that the market price was to be taken at the time of the death of the deceased and without any reduction on account of the assumption that the whole property is to be placed on the market at one and the same time, although it is permissible to take into account depreciation by reason of the death of the deceased. However, Lord Reid doubted whether the latter enactment did more than express what was implicit in the 1894 Act.

These rules are modified as regards agricultural cottages by section 18 of the Finance Act 1911, and as regards controlled companies by the legislation inaugurated in 1940. Furthermore, the fixing of the market value of an assst on the date of death for capital gains tax is final for estate duty purposes if effected for the purposes of a conclusive assessment to capital gains tax chargeable in consequence of the death or a conclusive decision on a claim for an allowable loss so accruing. These provisions are amplified in section 26 of the Finance Act 1965.

Capital gains tax

Section 44 (6) lays down that if, and so far as, the question in dispute on any appeal against an assessment to capital gains tax or corporaton tax, or against a decision on a claim under Part III of the Finance Act 1965, is a question of the value of any land, then it is to be determined on a reference to the Lands Tribunal if the land is in England or Wales.

Northern Ireland has its own Lands Tribunal, but for Scotland – pending the establishment of such a tribunal – the reference is to a member of the panel of referees established under the 1909–10 Act. Similar remarks apply to a lease of land – an expression which includes an underlease, sub-lease or any tenancy or licence, as also any agreement therefor. The term 'land' includes houses and buildings of any tenure (section 3, Interpretation Act 1889).

Paragraph 2 of Schedule 10 in the 1965 Act authorizes the making of regulations and these are set out in Statutory Instrument No. 149 of 1967. It may be observed that these were submitted in draft to the Council on Tribunals, a body set up under the Tribunals and Inquiries Act 1958 to exercise supervision over the proliferation of semi-judicial appeal forums. In their annual report for 1966 the Council indicated that their comments on procedural matters had been met in substance, although their right to be consulted was not enacted until the passing of the Tribunals and Inquiries Act 1966 (section 3).

Business Manager, prepared for the Department of Employment and Productivity, it is the business manager in his decision-taking role who is singularly important to the stimulation of regional economic growth.

The report is based upon data collected from a sample of 145 firms and 1,653 of their members. Among the various findings which relate both to the work and leisure activities of the respondents, the authors find that business managers in the north do not as yet show the kind of American 'organization man' attitude to life and work.

Among managers contemplating a move away from the north, three-quarters listed prospective salary increases as the main reason. Conditions, status, and prospects at work were paramount over any consideration of home environment. Even so, many newcomers were critical of the social conditions in the north, including transport, shops and housing, as well as insularity and parochialism evident in the northern communities. Against such criticisms, the report notes that general contentment with the present way of life was the main deterrent to out-migration among half the managers; cheaper housing, ties of children's education, and travel to work, were other significant deterrents.

This is My Life

by An Industrious Accountant

MY son, due to leave school this year, has been having numerous talks with all and sundry about the various careers available to him. It was somewhat gratifying to one's parental pride, therefore, when he announced one evening that he thought he'd rather like to be an accountant. I laid down a metaphorical red carpet, slew a similar fatted calf, and asked him if he'd like me to do anything about it.

He and three of his school friends, in turtle-neck sweaters and wrinkled jeans, were perched on the dining-room chairs with serious expressions. First, some literature on the subject, they requested. Not just junior-level stuff – they'd already dabbled in a bit of book-keeping – but something to tell them what the adult future held in the way of problems and responsibilities and work. Something they could discuss and analyse, and balance against the allures of air-pilots or insurance men or emigrants to Canada. Something with lots of detail.

The thoughts of youth are long, long thoughts, Longfellow said, and these modern youngsters look far ahead. I happened to have some booklets for their inspection – recruiting brochures issued by various accountancy bodies – as well as statistics of our numerical strength, of examination syllabuses, and of articled clerks' remuneration. Our invaluable services to management and our respected – and respectable – role in the modern industrial world were touched upon with modest pride. On the whole, quite an impressive display, I thought.

But my young audience didn't think so. They're cat, absolutely cat, they said incomprehensibly but decisively. Too nebulous, too vague, too much generalization! What did qualified men actually *do*?

Well, they were the eyes and ears of the board, I quoted; the right hand of management, the nerve-centres of financial operations. 'Sounds like Dr Kildare', said a spectacled youth with an insufferably smug expression. 'They'll be transplanting hearts next. Haven't you got something more definite – the sort of real gen we get on TV?'

I gave him a long, hard look – which had no effect – and read out some phrases about evaluating control procedures, minimizing or detecting fraud, certifying solvency and protecting shareholders' interests. They sat forward sharply. 'But how, exactly?' queried my son. 'How do you catch an embezzler? Are there any histories of absconding tycoons or of efficiency experts in action?'

A stout boy remarked that, in Africa, witchdoctors used to smell out evil-doers, and Spectacles said, with a feeble attempt at humour, that accountants had esoteric rituals of their own, only revealed after gruesome initiation ceremony.

The problem was that they're accustomed to receiving – and can really quite readily absorb – masses of technical data in popularized, easily-digestible form. From the history of Judge Jeffreys with his Bloody Assizes to Perry Mason's shrewd advocacy, for example, they're familiar with legal procedures. *Z Cars* and *Dixon of Dock Green* showed them detective skills in action, Fleming and Le Carre opened up the most minute secrets of the spy. Every career – except accountancy – has its mythology, folklore and epics.

'We can't reveal highly-confidential negotiations', I told them. 'Professional etiquette you know . . . our discretion must be absolute; our lips are sealed.'

'They can't even wear special ties,' added my son sadly, 'not even at their own meetings.' Spectacles, who'll get a clip on the ear before he's much older, said something derisive about bugged brief-cases, and the stout boy asked if lady accountants ever had to do decoy work for international swindlers.

I tried to explain that our tasks rarely encountered criminal intrigue or exciting challenges. There was always an element of routine and boredom between the highlights. The boys looked disappointed. As was said of Rupert Brooke they were 'magnificently unprepared for the long littleness of life', and I felt rather guilty at being unable to help them as they deserved. Perhaps the 'future plans' will hold greater possibilities!

Britain at the material time (when they consisted of renounceable letters of allotment).

Rejecting the submission, his lordship said that to hold that the word 'is' in section 28 (2) signified one date when the property passed on the death and another date when it was only deemed to pass on the death, would unduly strain the language of section 28 (2). It was therefore unnecessary to decide whether, at the time of the gift, the subject-matter of the gift was outside Great Britain. He refused an application to set aside an injunction obtained by the Estate Duty Office against the company, restraining it from permitting the transfer of the shares and from paying any dividends until the estate duty was paid.

Residence and Income Tax

THE United Kingdom tax system becomes ever more comprehensive. The year 1962 saw the introduction of a tax on short-term capital gains, and 1965 saw the introduction of tax on long-term capital gains. To have to pay the former, an individual needs to be both resident and ordinarily resident in the United Kingdom. To escape the latter, he must not be either resident or ordinarily resident in the United Kingdom.

There are even more confusing rules in relation to income tax. What is meant by 'resident' and 'ordinarily resident'? On this fundamental problem the Income Tax Acts give remarkably little guidance. It has been left to the Courts to spell out the meaning by decisions on innumerable cases with widely varying facts.

How does the ordinary individual thread his way through these cases? The answer is that he cannot and, recognizing this, the Inland Revenue have published a code of their practice in relation to individuals coming to Britain from abroad. This is helpful, but it is brief and in any case most people prefer to take an exposition from a less interested party. Into this breach has stepped The Association of Certified and Corporate Accountants with an excellent booklet entitled *Residence of Individuals – Liability to United Kingdom Taxation.*

It is divided into three parts: Part I expounds the principles by which the residence status of an individual is determined for British tax purposes; Part II explains the extent of the liability of non-residents to U.K. taxation; Part III treats of the liability of U.K. residents to British tax in respect of income arising abroad.

There is a list of the territories with which Britain has double tax agreements, and another of the countries the residents of which do not have to pay U.K. tax on dividends from British companies, or have to pay tax at lower than the usual rates. Price 7*s* 6*d*, in tax literature there could hardly be a better bargain.

Prices Index for Pensioners

IN May 1967 the Minister of Labour informed the House of Commons that the Cost of Living Advisory Committee was to investigate the desirability of publishing retail prices indices for special income groups and by regions, as well as considering particular modifications to the existing index. The report of the Cost of Living Advisory Committee (Cmnd 3677, H.M.S.O. price 3*s* 6*d*) now recommends that two new indices for old age pensioners should be published and that the existing index should include indicators relating to the price of meals consumed outside the home.

In putting forward a recommendation that retirement pensioners should have their own special indices, it is important to note that the new indices will cover the expenditure only of those pensioner households which are not already covered by the existing index. They are those households where at least three-quarters of the income is derived from State welfare benefits. These are estimated to comprise about half of all retirement pensioner households, i.e. rather over 3½ million.

Separate indices will be prepared for one- and two-person pensioner households at present excluded from the current index. These represent about 55 and 45 per cent of such households respectively. In addition, such indices will exclude housing costs, since these tend to be highly variable and, in any case, in such households the costs are often fully covered by additional welfare benefits. The new indices will not be published monthly, but at three-monthly intervals, each published index being the average of the three months' figures.

The main reason for compiling the indices is to meet the criticism that the existing index does not cover such households and that it is therefore unrealistic to assess changes in the living costs of these households by reference to the current index. A retrospective analysis of budgets shows that during the past few years pensioner living costs have tended to rise faster than those of other 'index' households, but not substantially. However, the new indices will provide useful information when the future pattern of pensions and other welfare benefits are being revised.

The Committee intends to examine further the question of introducing regional indices. They made no recommendations on this matter except to draw attention to the need for continuing study of the technical problems.

Mobility of Managers

EFFICIENT implementation of regional development policy depends, states a report from the University of Newcastle-upon-Tyne, Department of Geography, on influencing the migration habits of certain socio-economic groups whose presence in, or attraction to, an area is critical for its well-being and growth prospects.

Among the most important of the members of these socio-economic groups is the business manager; others include the skilled worker, foreman or certain categories of professional men. However, observe the authors of a report entitled *Mobility of the Northern*

Current Affairs

Capital Reductions as Tax Advantage

THE number of successes by the Inland Revenue in establishing directions under section 28 of the Finance Act 1960 seems to increase almost daily. The latest was last week in *C.I.R. v. Horrocks.* It concerned Pennington Mill Co Ltd which had an issued share capital of £45,000 in £1 shares, of which Mr Horrocks had 710. In 1959 the company decided to cut down its operations, reduce its capital by £43,875, and pay 19*s* 6*d* in respect of each share to the shareholders. Thus, Mr Horrocks received £692 5*s*. The company then capitalized £43,875 of its surplus profits which were available for distribution, issued bonus shares of 6*d* each to the shareholders at the rate of thirty-nine for each share held, and consolidated the capital into £1 shares.

The Inland Revenue made a direction on Mr Horrocks under section 28 on the ground that he had obtained a tax advantage in connection with a transaction in securities, in that there had been an issue of bonus shares. He appealed on the ground that although admittedly, the £692 5*s* had been received in an untaxable form, and that it could have been received as a dividend and therefore in a taxable form, he nevertheless received it, not in consequence of a transaction in securities but purely of a reduction in capital. The Special Commissioners accepted this argument but the Revenue appealed.

Allowing the appeal Mr Justice Plowman said, according to *The Times* of July 9th, that the transactions constituted one single scheme. It would be unreal to divide up a similar scheme into parts and to suggest that one part preceded another. There was only one transaction which was a composite of all its parts and it made no difference if the parts occurred in one order or another. The only difference between the case and *C.I.R. v. Hague* was that in *Hague* the capitalization and bonus issues had preceded the reduction in capital. The case was indistinguishable from *Hague.*

S.E.T. Appeal Dismissed

THE Court of Appeal has held that the employees of the Esso Petroleum Co Ltd engaged in refuelling aircraft at its establishment at Ringway Airport are engaged in activities which do not entitle the company to a refund of selective employment tax.

The company had argued unsuccessfully before the Industrial Tribunal that the activities fell within heading 706, 'Air Transport', of the Standard Industrial Classification. It then appealed to the Divisional Court which, however, dismissed the appeal on a ground not taken by the Tribunal, namely, that 16 of the 25 employees were engaged in the 'sale of goods'.

The Court of Appeal said that the Divisional Court had no right to decide in that way. The company's appeal could only be on a point of law, and the Tribunal had not made any finding on that question. If the Divisional Court wanted it to be raised, it should have sent the case back to the Tribunal. The appeal was therefore dismissed for the reasons stated by the Tribunal, not those given by the Divisional Court.

Lord Denning (according to *The Times* of July 3rd) added that the headings in the Standard Industrial Classification were illustrative, not exhaustive, and were not to be interpreted in a legalistic way, but, broadly, according to the general intent. However, Lord Justice Sachs said it was a pity that a reasonably clear classification had not been made for the purposes of the Act. Taxpayers deserved better treatment by those who had a duty to spell out with reasonable clarity who was to suffer the taxes. The company obtained leave to appeal to the House of Lords.

Canadian Gift Pays Estate Duty

A DECISION on the precise meaning of the word 'is' in section 28 (2) of the Finance Act 1949, where it occurs in the phrase 'property passing on the death which is situate outside Great Britain', was given recently by Mr Justice Plowman.

The section is concerned with estate duty, and in relation to free estate there can be no doubt that the test of the location of the asset is to be applied as at the date of death. But what of a gift? If a non-resident makes to another non-resident a gift of property which at the time is outside Great Britain, and he then dies, does the overseas donee have to pay estate duty on the gift should the asset in the meantime have assumed a British location? The answer, according to the report of the case of *re Kettle (deceased)* in *The Times* of July 4th, is 'yes'.

Mrs Kettle was domiciled in Canada where she died in August 1963. In the preceding March, Dorland Advertising Ltd, a company registered in Great Britain, made a bonus issue under which Mrs Kettle, as a shareholder, became entitled *inter alia* to 18,316 shares. She renounced them in favour of three relatives who were also Canadians. The Estate Duty Office claimed estate duty from them on the ground that the shares were situate in Great Britain and were the subject of a gift made within five years of the death. The Canadians claimed exemption under section 28 (2) on the ground that the shares were situate outside Great

Taxation in Company Accounts

IT would be extremely difficult to fault the new recommendations of the Council of The Institute of Chartered Accountants in England and Wales on the treatment of taxation in accounts of companies, as published elsewhere in this issue. One thing which has been of assistance to the Institute is the fact that the draftsmen of the Companies Act 1967 have been somewhat more sophisticated in their approach than the draftsmen of the previous Companies Acts. However, the provisions of Schedule 2 to the 1967 Act which apply specifically to taxation are naturally very brief. Anyone concerned to prepare, or to understand, a company's accounts will have reason to be grateful to the Institute for expounding the principles of the Act.

In one respect the Finance Act 1965 has made the auditor's task somewhat easier. In the old days, a company's tax assessment was based on a conventional basis period which only in exceptional cases would coincide with its accounting period. From this arose the vexed question of whether income tax computed on the profits of the accounting period constituted a reserve or a provision, bearing in mind that the profits of that accounting period might never enter into the computation of the company's taxation liability. This could happen where there was a permanent discontinuance of the trade shortly after the end of the accounting period. The Finance Act 1965 firmly married the taxation period to the accounting period as chosen by the company.

But whilst simplifying in one respect, the Finance Act 1965 added further complications. One of these is the question of corporation tax on chargeable gains, i.e. on profits made on the company's capital assets. A balance sheet is an historical document, and as long as assets are shown at cost, then it must follow that problems of tax on chargeable gains do not really arise. However, if a capital asset has been sold at a profit during the year, it will obviously be wrong to show that profit without also showing the corporation tax liability in respect of the chargeable gain. Even where the capital asset has not been sold, but has been written up to a figure above cost, then here again, some adjustment must be made for the corporation tax which would be payable on the basis of the new valuation, assuming that the asset had been sold for that new figure during the accounting period. Paragraph 46 contains the following sentence about unrealized capital surpluses:

> 'When the revalued assets are eventually disposed of there may be a liability to corporation tax, and to the extent that the chargeable gain is a reflection of the surplus created by the revaluation, the tax should be regarded primarily as a charge against the reserve to which the surplus was taken.'

This seems to us to be the most appropriate way of treating a surplus arising on revaluation. However, paragraph 46 goes on to give an alternative. Part of the surplus shown up by the revaluation can be allocated to taxation account, and only the balance taken to reserve.

Sometimes a capital asset is not written up in the accounts, but a note may be added for the comfort of shareholders showing that the market value is considerably in excess of the figure shown in the accounts. Such a note, which did not also draw attention to the fact that a realization at that market value would attract corporation tax, would be misleading. Therefore, the Institute recommends that where there is a note of the market value, the note should also contain an estimate of any corporation tax which would arise if the assets were disposed of at the value noted. Of course the precise amount of the tax may be extremely difficult of calculation. The Institute recognizes this, and adds that if, because of practical difficulties, an estimate of the tax is not made, then the note of market value should include reference to the fact that had the asset been realized, at the value noted, a liability to tax on any chargeable gain would have arisen.

Now that profits on a disposal of capital assets have been assimilated, for the purposes of charging corporation tax, to ordinary revenue profits, one might reasonably have expected that losses on the disposal of capital assets would be available for set-off against revenue profits. However, this is not the case. Such losses can only be set off against chargeable gains. A revaluation of capital assets might show surpluses on some, and deficiencies on others. It is common sense, in such a case, to provide for the setting-off of capital losses against chargeable gains and to show what the net corporation tax position would be in the case of such capital assets. This is what the Institute recommends. The position is bedevilled by the provisions for election in the case of assets acquired before April 6th, 1965. At one point in time, and on the assumption of the realization of certain assets, the election will be favourable. In another set of postulated circumstances it might be preferable not to exercise the election. The task facing the accountant therefore is a difficult one. To quote paragraph 59 of the recommendation:

> 'Nevertheless, it is considered in order that the accounts may show a true and fair view, that every effort should be made . . . to give at least a fair approximation of the potential liability involved, however remote in time the prospect of incurring it may be considered.'

'Valuation is 85 per cent investigation', states Mr MEDLAM, and few would quarrel with that apt description of the painstaking process of assembling all the relevant data which precedes the ascertainment of value, particularly in relation to unquoted shares.

Share valuation is usually regarded as a subject for experts, but as in so many fields the experts tend to disagree because once the facts have been established and digested, personal judgement and opinion must be exercised or, to put it rather baldly, an intelligent guess has to be made about the price shares might fetch on a hypothetical open market.

The professional accountant has long regarded share valuation as coming within his special preserves but it is as well to remember that he is not alone in this field. Stockbrokers, bankers, merchant bankers, investment analysts, financial journalists and, one might add, the judiciary, all claim a hearing in the critical interplay of views and counter-views which takes place in the absence of a real market. Experience and sound judgement, call it 'flair' if you will, probably count for nearly as much as mere technical skill. Maybe this represents the missing, but crucial, 15 per cent of the valuation process.

As Mr MEDLAM properly points out: 'To go from value to price is a matter of negotiation, force of debate, quick ripost and nimble brain'. Nevertheless, the last word seldom rests with the professional valuer. Only the bidder can truly estimate the additional potential in the proposed acquisition and the agreed price may well be in excess of that recommended by the expert.

As the late Lord CHANDOS once remarked 'on these matters the opinion of insiders engaged in the industry must carry greater weight than that of outsiders'. And with your own money at risk that is just as it should be.

A slightly different approach is needed, however, when dealing with the valuation of shares in public quoted companies, and Mr MEDLAM's trenchant views are worth recalling. 'In the glamorous take-over of a public company, price rules', he says, and refers to the many circumstances where the circulars sent out to both sets of shareholders have been full of opinions on the correct price assessed by merchant bankers and others rather than the traditional watch-dogs for the shareholders. Later, in his conclusions, the point is reiterated: 'Larger mergers appear to be done on price and without reference either to the auditors acting as investigating accountants (best of all) or reference to outside independent accountants'.

In the case of unquoted shares, it is a case of feeling one's way towards the 'notional price' from the valuation base; in the case of quoted shares price is already set by market forces, i.e., the official Stock Exchange quotation. One may, of course, argue that even the quoted price depends upon perfect knowledge which is seldom, if ever, possessed by the investing public or that there is a narrow market in the shares. This certainly implies that, at any point in time, some quoted shares are overvalued and conversely some are undervalued. Yet if a bid is to have any chance of success, clearly the offer must be pitched some way above the market quotation.

In these circumstances, future trends and prospects including the scope for rationalization and other internal economies plus prospective savings in research and development expenditure, and above all the quality of management, may weigh more heavily with a bidder than a bare recital of past performance.

Indeed, the all-too-recent instance of the intervention of the Industrial Reorganization Corporation in the take-over battle between the Rank Organization and George Kent for Cambridge Instruments illustrates the dangers of departing from the arbitration of market forces. Nevertheless, the auditors or investigating accountant still have an important role to play at all stages of examination, discussion, investigation and price comparison in take-over bids.

The accountant's role here is, therefore, almost on a par with the type of investigation required for a prospectus – and, after all, what is an offer document except a circular addressed to shareholders in one company inviting them to accept an exchange of shares in another company new to them?

If nothing else, the early retention of investigating accountants might have avoided the unsatisfactory aftermath which seems to have resulted from some of Courtaulds' bids referred to by their chairman, Sir FRANK KEARTON, in his recent strictures on some City institutions – including The Institute of Chartered Accountants in England and Wales. The very fact that he found the situation of some companies that he had taken over so different from that represented by their published accounts points the moral.

The mechanics of making or receiving a bid are admirably set out in the paper in note form and contain references to the Board of Trade rules on offer practices, the Stock Exchange memorandum on the subject and the City Code on take-overs.

The clear necessity for consultations between the internal accountants and auditors, before proposals come to finality, is further reinforced when it comes to the accounting, financial and tax effects of mergers. Striking a salutary note here, Mr MEDLAM remarks 'All too often some of the good effects of merger are dissipated by bad accounting and financial policy'.

Mr MEDLAM concludes – 'Mergers are accountants' business, they are trained in it, they have the skills necessary and they are prudent and careful men. Not to use their skills and prudence is foolhardy indeed'.

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Accountants and Mergers

SHARE valuation is one of the more absorbing but exacting duties that falls to the lot of the professional accountant. In performing this difficult task so much depends upon the precise purpose of the valuation, because the same share can quite legitimately have different values according to the objective and criteria adopted. For instance, a valuation of unquoted shares may be required for probate purposes, or by a potential seller of a small holding, or in the case of a purchase of a controlling interest in a private limited company, or in connection with an offer for sale or a placing or, of course, in the event of a possible merger or take-over bid.

It is the last of these various purposes that formed the substance of a paper given by Mr W. G. MEDLAM, F.C.A., to the Institute's Summer Course at Oxford on Friday last, reproduction of which commences on other pages in this issue.

In his introduction Mr MEDLAM observes that 'greater activity in the future of take-over and merger is a near certainty if consideration is given to figures available on numbers and classes of companies' and he proceeds to sketch in the background to these remarks by pointing to the huge number of previously exempt private companies (at the very least over 382,000) as compared with a mere 15,000 public companies (of which fewer than 5,000 are quoted on a recognized stock exchange). When the accounts of all the former exempt private companies are filed under the provisions of the Companies Act 1967 and their assets and trading position are, at last, exposed to the light of day, merger activity will most probably increase.

Mr MEDLAM then turns the spotlight on the reasons for take-overs, starting with the post-war position where astute men seized the opportunity of cashing-in on unrealistic and historical asset values – the era of the sale and lease-back of freehold land and property – followed by acquisition in order to inject new and more lively management into an ailing firm (with or without the introduction of fresh capital), going on to acquisition by reason of consistent undervaluation of balance sheet values, the gradual move towards diversification, and the far more numerous class of acquisition for purposes of integration into an industrial or trading group which is likely to continue into the future as firms seek ways and means of achieving the elusive benefits to be derived from the economies of scale. The real transformation of British industry, however, is more likely to occur among the smaller fry than between giants.

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The Institute of Chartered Accountants of Scotland

Spring Diet of Examination, 1968

PART V

Of the 511 candidates who sat Part V of the Institute's examination on May 14th, 15th, 16th and 17th, 1968, the undernoted 229 candidates (44·8 per cent) passed. Their names appear in alphabetical order and are followed by the names of the firms of the masters to whom they were indentured or assigned.

The Institute's Gold Medal
(for the candidate whose performance over Parts IV and V is the most meritorious)
Hendry, Ronald Crawford (John M. Geoghegan & Co), Edinburgh

Distinction
(for each candidate whose perfomance over Parts IV and V is sufficiently meritorious)
Hendry, Ronald Crawford (John M. Geoghegan & Co), Edinburgh
Harrison, Allan Leslie (Cooper Brothers & Co), Glasgow

The Canadian Prize
(for the candidate awarded the Institute's Gold Medal)
Hendry, Ronald Crawford (John M. Geoghegan & Co), Edinburgh

The Institute's Prize
(for the two candidates whose performances in Part V are the most meritorious)
Harrison, Allan Leslie (Cooper Brothers & Co), Glasgow
Borland, Ian Carmichael (Davidson Smith, Wighton & Crawford), Edinburgh

The J. C. Burleigh Prize
(for the candidate whose performance in Part V is the most meritorious)
Harrison, Allan Leslie (Cooper Brothers & Co), Glasgow

The John Munn Ross Prize
(for the candidate whose performance in Paper 1 of Part V is the most meritorious)
McNeil, Ian Roderick (Thomson McLintock & Co), London

The J. C. Burleigh Prize
(for the successful London candidate whose performance in Part V is the most (and sufficiently) meritorious)
McNeil, Ian Roderick (Thomson McLintock & Co), London

The C. J. Weir Prize
(for the successful Aberdeen candidate whose performance in Part V is the most (and sufficiently) meritorious)
Dalgarno, Frederick George Scott (Williamson & Dunn), Aberdeen

The Guthrie Prize
(for the successful woman candidate whose performance in Part V is the most (and sufficiently) meritorious)
Struthers, Marjorie Gibson (Thomson McLintock & Co), Glasgow

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Aitken, R. F. (Cooper Brothers & Co), Glasgow
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Anderson, J. M. (David Strathie & Co), Glasgow
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Churchill, T. S. (Alexander Sloan & Co), Glasgow
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Coyle, I. W. (Jardine, Dunlop & Anderson), Coatbridge
Cumming, N. H. (Thomson McLintock & Co), London

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Dantzic, R. M. (Cooper Brothers & Co), Glasgow
Dick, J. R. (McLay, McAlister & McGibbon), Glasgow
Dickson, B. R. McE. (Turner, Hutton & Lawson), Glasgow
Dougan, T. G. (Galbraith, Dunlop & Co), Glasgow
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Doyle, L. S. (Meston & Co), Aberdeen
Duncan, T. H. (Turner, Hutton & Lawson), Glasgow
Dunlop, J. C. (Hourston, Macfarlane & Co), Glasgow
Dunn, A. B. (Graham, Smart & Annan), Edinburgh
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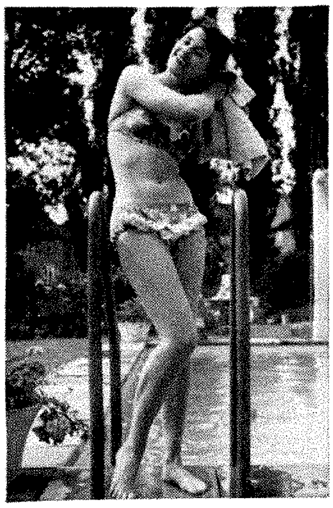
Forrest, W. R. (Miller, McIntyre & Gellatly), Dundee



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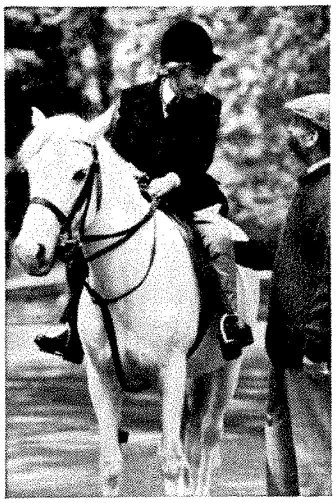

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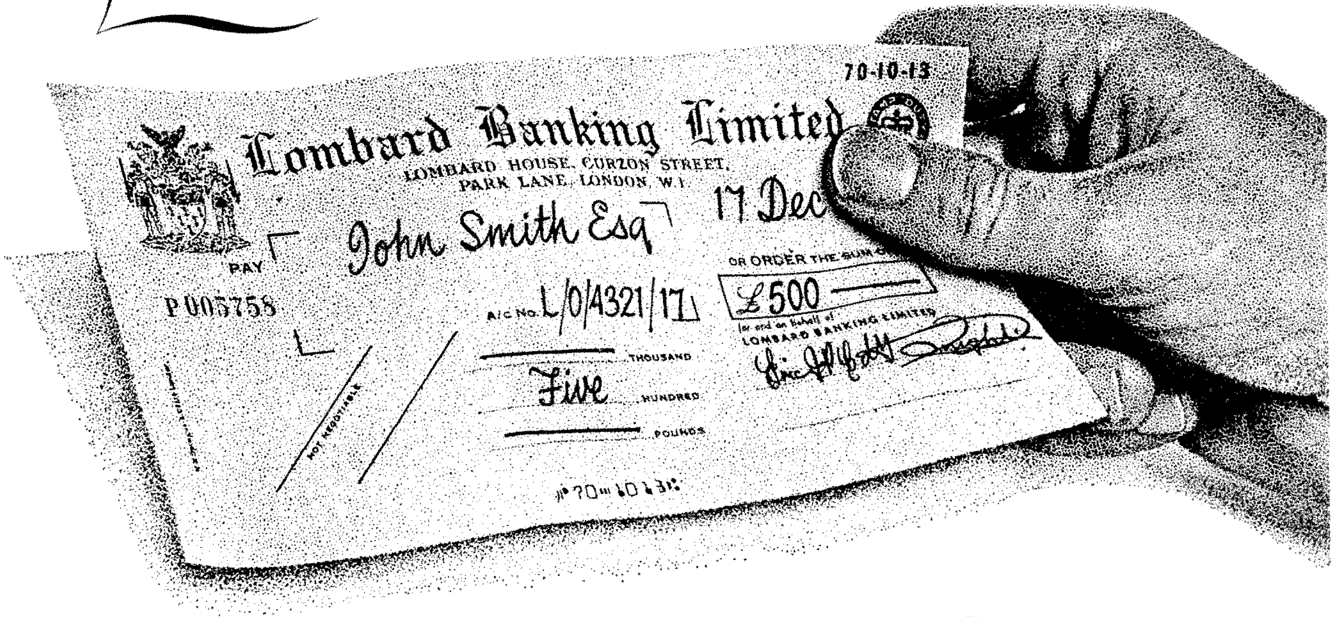

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However, it seems that publication of the proceedings of the Lands Tribunal by means of reports similar to those concerned with decisions of the Courts may have influenced the tribunal towards the incorrect view that it was bound by its own decisions. Acting under this supposition it followed its own earlier ruling as to the date when 'reasonable cost of reinstatement' fell to be assessed under section 2 (5) of the Acquisition of Land (Assessment of Compensation) Act 1919, in deciding the case of *West Midland Baptist (Trust) Association (Incorporated) v. City of Birmingham Corporation* (19 P. & C.R. 9[1]). Salmon, L.J., commented that no doubt its previous decisions on points of law should be treated by the tribunal with great respect and considered as of persuasive authority even when made by a layman (a reference to the fact that some members of the tribunal are not lawyers). But, he said, they should never be treated as binding. Careful scrutiny was of particular importance where the points raised were outstanding with far-reaching consequences.

The reason why

Rule 49 specifies that the decision of the Lands Tribunal on an appeal, reference or application, is to be given in writing together with a statement of the tribunal's reasons for its decision. Those who have occasion to go before the tribunal will be interested in the contents of a paper by the President of the Lands Tribunal at a sessional meeting of the Chartered Auctioneers' and Estate Agents' Institute and reproduced in the May issue of that Institute's *Journal* (page 195). In the course of his remarks, Sir Michael Rowe, C.B.E., Q.C., is reported to have epitomized the tribunal's objective, within the framework of statute law and decisions of the Court of Appeal or the House of Lords, as 'common sense and substantial justice'.

A point of some interest concerns the service of notices. Statutory Instrument No. 150 of 1967 provides that any notice or other document to be given, served, sent or delivered under any provision of any Act relating to capital gains tax may be served by post. The Interpretation Act 1889 is expressed to apply in this connection and section 26 states that the service is to be deemed to be effected by properly addressing, prepaying, and posting a letter containing the document. Unless the contrary is proved, service is deemed to have been effected at the time at which the letter would be delivered in the ordinary course of post. It seems that a letter is not 'properly addressed' if the person served has recently changed his residence, for a dictum of Russell, L.J., in *White v. Weston* ([1968] 2 W.L.R. 1459) indicates that an address five months stale does not satisfy this requirement.

Finance Act 1967

Another occasion for a reference to the Lands Tribunal arises from the provisions of Schedule 15 to the Finance Act 1967 of which paragraph 1 (11) designates that body as the arbiter of any question arising in any appeal against an assessment to tax as to the application of the provisions of that Schedule. For this purpose the Land Commission are required to afford the tribunal such information as they may require for the purpose. It will be recalled that the betterment levy extends only to land in Great Britain but as regards Scotland it is to the 1909–10 Act panel of referees that the question must be referred.

A notable aspect of this enactment is that the Lands Tribunal is thus made responsible for matters of income tax (and surtax) since it is with the impact of betterment levy on the charge to income tax under Case VIII (in some instances, Case VI) of Schedule D that Schedule 15 is concerned. The Finance Act 1963 imposes a charge on premiums and similar advantages to a landlord. Section 22 (1) taxes premiums in the form of money or value and subsection (6) permits instalments thereof to be treated as rent if desired. A proportionate deduction for betterment levy is applied before making the abatement which varies with the duration of the lease.

Proportion of levy allowable

The levy in Case B as described in section 30 of the Land Commission Act 1967 is that most obviously applicable to a lease and in deciding how much is relevant as an income tax deduction, regard is to be had to the capital value of the premium brought into account under paragraph 7 (*b*) of Schedule 4. Other factors are the capital value of the right to receive the rent and the various aspects of consideration elaborated in paragraphs 1 to 3 of Schedule 6. The ratio of the first factor to the aggregate consideration is used to determine how much is relevant.

A similar relief is granted as regards levy applicable to tenants' works chargeable under section 22 (2) of the Finance Act 1963. Again, levy chargeable under Case A may give rise to relief on the occasion of a charge under section 23 or 24 in relation to the assignment of a lease at an undervalue or a sale with right to reconveyance. A further possibility concerns levy under Case E or Case F related to consideration for the variation or waiver of a lease chargeable to income tax under section 22 (4).

That the Lands Tribunal functions smoothly seems to appear from the passing mention in the 1966 report of the Council on Tribunals which records that it handled 586 cases in that year without adverse representations to the Council. A similar absence of criticism is found in the report of the (Franks) Committee on Administrative Tribunals and Inquiries (Cmnd 218, July 1957) from which it appears that the Lands Tribunal enjoys a status little short of that of the divisions of the High Court which it resembles in so far as its decisions are only open to review by the Court of Appeal.

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[1] Property and Compensation Reports.

The Accountant's Role in Take-over Bids

by W. G. MEDLAM, F.C.A.

DURING the coming years the take-over, amalgamation, absorption, merger, call it what you like, will be just as active as it was during the past decade. The pattern of industry is revealing itself to be on a larger scale than previously and the small but successful business is finding it harder not only to keep its former place, but also to find the funds to carry out the necessary research and development of new products. Shared development facilities, common accounting, costing, and budgeting procedures, a small but compact and competent management team and a simplification of company structures are some of the advantages to be gained by the larger unit.

While a free enterprise economy subsists in Great Britain, companies will be taking each other over and amalgamating their administrations, techniques and managements. In addition, the rationalization of industry, national planning, Industrial Reorganization Corporation, depressed area advantages and other Government sponsored agencies will all tend towards the combination of interests designed to seek the maximum advantage.

2. As more private companies open their hearts by the compulsory filing of annual accounts demanded by the Companies Act 1967, so one can expect those companies which are expansion minded to take a peep into the affairs of another company on which they have had an eye for quite some time. Whereas before, information might have been difficult to come by, particularly on matters such as total turnover and its spread of profitability, these historical necessities of take-over consideration will, as the years pass, be fully displayed.

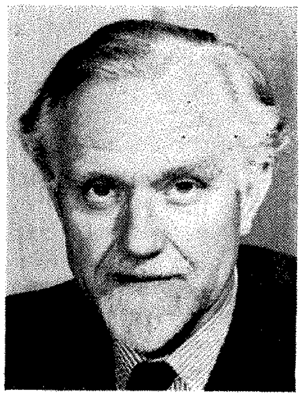
In the recent past, the big and glamorous take-overs have hit the headlines, but for every one of these, there must have been ten take-overs which slipped quietly through with little publicity and genuine good feeling on both sides. Mostly, they were lubricated on a basis of a friendly relationship but astute watchfulness of the professional advisers, both internal and external, of the companies concerned. They worked hard, mostly in amicable co-operation but alert to the hazards of their side of the negotiating table. They strove together to compromise and agree, to put a fair value on the company being taken over and then after superimposing the economies of the industry, the possible legal, marketing, delivery and other snags, and the overall situation after combination, to recommend a value for the managements and boards to consider.

3. Value and price are by no means synonymous in the context of take-over. Certainly in the take-over of public companies this may be so. Industries and companies come into fashion as growth stocks, and prices rise until the price/earnings ratios become quite out of line with the values calculated on bases of future maintainable profit, related to the past but adjusted as necessary to assess the future.

In the glamorous take-over of a public company, price rules; but in the far more numerous take-overs of worthy private companies, the hard slogging work of earning power assessment, valuation and appraisal, rule the day. Valuation is impossible without investigation and this is where the chartered accountants, both internal and external, prove their worth. They are skilled in investigation and without investigation there cannot be good valuation.

In the recent past, where public companies have been taking over another public company, the take-over papers circulated to both sets of shareholders have been full of opinions on the correct price assessed by merchant bankers and others. Regrettably in certain cases, there has been no recital in those papers that the auditors – the traditional watchdogs for the shareholders, men skilled in valuation by the very nature of their profession – have even been consulted and asked for their opinion. It seems paradoxical that auditors should be required to bark after their annual audit if directors, who are in a fiduciary position to shareholders, do not act properly, yet are not required to do so in circumstances where a possibly aggressive and thrusting competitor is putting a price tag on the shares. This is possibly because in the past accountants have hesitated to project and offer opinions on future trends and profit: the accountant's task is to verify the past but he should extend it to offering opinions on the future.

The sooner every take-over paper includes an opinion from auditors, acting as investigating accountants, the better will become the information submitted to shareholders for them to decide on their course of action. To have a watchdog available yet not to allow him to bark when strangers approach the premises is little less than



Mr W. G. Medlam, F.C.A., the author of this paper presented on Friday of last week at the Oxford Summer Course of The Institute of Chartered Accountants in England and Wales, is a partner in Pannell Fitzpatrick & Co, Chartered Accountants, of London. He was admitted to membership of the Institute in 1938.

foolish. A possible deficiency in the Companies Act 1967 is that it did not extend the auditors' duty to this task, but if the take-over habit extends itself, individual boards would do well to use, in this capacity, their shareholders' tried and proven friend, the auditor. Public company investors may or may not be sophisticated investment appraisers, but there must be many private company investors who would welcome their auditor's opinion.

A first step in this direction has been taken by the boards of the Westminster Bank and the National Provincial Bank in their proposed merger; both of them have publicly announced that they will seek the advice of their auditors on the merger terms. Undoubtedly many small shareholders will welcome a view from those whom they know exist for the purpose of safeguarding their interests.

4. For the future, the total cost of the take-over, both from the point of view of the offerer and the company being taken over, must play a part if, as anticipated, activity will increase among the medium-sized industries. Professor Merrett's book (*Equity Issues and the London Capital Market*, by Merrett, Howe and Newbould; Longmans, 42*s*) on this subject is well worth reading and contains many of the necessary points which both the internal and external investigating accountant will wish to know. The book deals largely with public issues, but the future may bring more of these following in the wake of mergers and the publicity of filing accounts of all limited companies. Greater activity in the future of take-over and merger is a near certainty if consideration is given to figures available on numbers and classes of companies (see below).

BOARD OF TRADE REPORT ON COMPANIES 1966

		Great Britain	*England & Wales*	*Scotland*
Public		15,298	14,027	1,271
Private		511,962	489,588	22,374
Companies in Process of Liquidation		28,999	27,620	1,379
Public	1,175			
Private	27,824			
Total		556,259	531,235	25,024

Of the	511,962	private companies
there are	382,528	known exempt private companies
and of these	129,434,	many could be classified in 1967 as exempt private companies and will be so classified when they file their annual returns and the necessary certificate under section 129 (4). There is an interval of time between the date of incorporation and the date on which the first annual returns must be filed during which it cannot be established that those new companies would have ranked for exempt status. However, in 1968 exempt status dies.

The survey (*Economic Trends*, February 1965), gave the following approximate figures for England:

Public quoted companies	4,600
Subsidiaries thereof	17,900
Subsidiaries of overseas companies	1,700
Non-exempt private companies	33,100
Remainder exempt from filing accounts	345,500
	402,800

When the accounts of the companies formerly exempt from filing their figures become available, merger activity will probably increase, but not all of it will follow the previous patterns.

In the majority of cases, it is probable that the investigating team will consist of the team captain being an accountant, internal or external but probably co-operation by both, the solicitor to draw the necessary deeds and where necessary experts such as valuers, engineers, market survey experts and others.

Limited to the bare necessity of professional advice and opinion, costs should not be either a bar or an unconscionable burden on the proposal. In cases where the merger envisages public quotation a stock-broker would be brought in and if size and importance so warrants, a merchant banker or issuing house.

Some reasons for take-over

5. In this section the following reasons are discussed:

A. Acquisition for fragmentation by asset sale.

B. Acquisition for purposes of integration into an industrial or trading group.

C. Recapitalization of a successful industry with modern machinery, the cost of which is beyond the truly economic capital and loan raising powers of the company.

D. Acquisition by reason of manifest undervaluation of balance sheet values of valuable fixed assets.

E. Acquisition by reason of elderly and old-fashioned management and direction.

F. Diversification.

G. The inexorable march of taxation philosophies.

6. In the past the fragmentation take-over had its popularity because astute men foresaw the course of inflation and seized the opportunity of cashing-in on unrealistic and historical asset values, the true level of which the shareholders were unaware. The procedure was simple: balance sheet values of assets were studied, an assessment of present value was made clandestinely, share price movements were studied in company with earnings and dividend yields and then a seemingly attractive bid was made which appeared to give present shareholders a cash advantage. Later the individual assets were sold or leased-back, the net result being the probable retention of the corpus of the business as it was before, but at a handsome profit to the new shareholders.

This class of take-over may continue in the future, but is not the subject of detailed study in this paper; the majority of its attention should be and is channelled towards useful mergers and amalgamation. In any case, where assets or their new equivalents, perhaps cash, are transferred to the new parent on a loan basis, close scrutiny of the transactions is necessary in order to ensure that there is no contravention of section 54 of the Companies Act 1948. This section prohibits a company from directly or indirectly (two important words) lending money for the purchase of its own shares and so impugning the position of creditors. The derisory penalty imposed by the 1948 Act was a bar to none and even the possibility of damages after an action for misfeasance held few terrors. Investigating accountants and auditors of companies would do well in the future to keep well in mind section 54, the case law on it, and the relevant paragraphs of the Jenkins Report.

There may be more hazards in section 54 than appear at first reading. (The disabilities of section 54 are dealt with more fully under paragraph 27 B of this paper.)

7. Acquisitions for the purposes of integration into an industrial or trading group are by far the most likely types of merger in the coming years.

Companies with similar products or processes will be seeking integration to effect economies in development, market research and marketing, production, inventory control and similar matters.

Others, essentially production units, may wish to merge with the suppliers of their raw materials or a selling company.

Others may feel that wasteful competition could be eliminated or at least co-ordinated by an appropriate merger – one of the main objects of the Industrial Reorganization Corporation.

Other companies may feel that there are financial or tax loss advantages to be gained; central banking and financial administration by a common parent are becoming increasingly popular and advantageous, and grouping of companies for corporation tax may yield its advantages.

Other companies may feel that an enhanced size might help expansion or diversification or even make the possibility of being taken over all that much more difficult.

8. Some take-overs take the form of a friendly merger with a carefully sought for bidder. These are usually cases of an industry with a past history of success, a good but perhaps elderly management team with a substantial share ownership of themselves and their families, ageing plant and machinery needing expensive rejuvenation, well tried but not necessarily modern sales and export agents and perhaps customers. Broadly, this is a description of a company which has had a fine goodwill but not the volition or opportunity to modernize all or most of its policies. More often than not the finances, capital structure and administration belong to a past age and expose the interests of its shareholders to the full perils of modern taxation philosophies in all its forms.

9. Acquisition by reason of undervaluation of balance sheet values does not necessarily fall under the heading of fragmentation described in paragraph 6. Such a company was more attractive before the passing of the Companies Act 1967 and the requirement to state in the directors' report the value of assets if they differ materially from book values.

This type of acquisition was used in an endeavour to make use of possible low asset values to uplift statistical information and ratio comparison such as return on capital employed. This was particularly useful where the acquiring company had strong paper reserves, off which to write the excess over par value of the shares acquired, thus leaving a healthy net return on tangible assets.

Acquisitions because of undervaluations will not die out and consequently the accounting for them after the take-over is an important aspect (this is discussed in paragraphs 28–38).

10. Acquisitions because policy and direction require rejuvenation has been discussed in paragraph 8 above, and need not necessarily mean that new capital or refinancing is necessary.

11. Diversification is often a reason for take-over, and little need be said about it. Normally the bidder is either a company with an already wide control of diverse subsidiaries or a company in a narrow but successful line of business which wishes not to have all its eggs in one basket.

In such circumstances it can be presumed that the company being acquired has a skill which may or may not be present in the bidder and therefore quality of management and its continuity may be all-important.

In paragraphs 13–18 the preliminary investigation is described, but it is plain to see that in diversification acquisitions the investigation of the management administration is all important. Particularly because some of the early diversifications following the availability of funds from industries nationalized, concerns acquired leaving the company intact but with substantial funds, and early post-war years of cheap money, proved that management skilled and competent in one field were not necessarily so in another although there were many fine exceptions to this statement.

12. Except temporarily, taxation of income and capital never diminishes. The complexity of modern corporation tax, capital gains tax, income tax, surtax, estate duty, betterment levy and even selective employment tax with its proportions of operative to service personnel, is astounding. The paraphernalia of participators, close company distributions and shortfalls, 'control' attributed beyond imagination, restrictions on allowable directors' remuneration, in estate duty the arrangements which have to run for seven years before they are fully consummated, the assets basis of valuation, in capital gains tax the wasting asset time formula and the options for April 1965 valuations, and so on *ad infinitum*, all require attention.

Even today we are fearing a wealth tax and an added value tax.

Since 1965 there have been cases where there is no way out except to open a close company. No doubt as participators increase in number or drop out through selling shares to each other in private companies, families will decide to offer themselves to the right bidder and so avoid some of the insecurities and dangers of close company status. In this way they can pay more attention to the aims of their company and get on with the business of producing, selling, exporting, and developing new products and new markets; for such companies a friendly bid will be welcome.

The investigation and valuation

13. Valuation is 85 per cent investigation; where this statement is recorded, other than in this paper, is not known. But it is pretty well right.

Chartered accountants, as stated in paragraphs 2 and 4, particularly the latter, will probably lead the investigation team. Rightly so, as their training includes the professional work of investigation. It is not intended to turn this paper into a lecture on investigation, but within the context of take-over and merger at least something must be said.

In the case of public companies with a quotation, many offers are made without any investigation other than that of published information coupled with general knowledge of the trade as a whole and the companies constituting it. For private companies, if exempt under the Companies Act former rules, there was little real information and investigation was essential.

Certainly for private companies in the future, and notwithstanding the necessity to file accounts, from the offerer's point of view, he would be foolhardy if he did not ask his own internal accountants and his auditor for a comprehensive report following the usual type of formal investigation of the company proposed to be taken over, due consent to such investigation having been given. The report of an investigating accountant not only contains a wealth of information for a well-versed reader, but if signed by an external accountant, a feeling of security as well. Such a report has to be accurate or the spectre of the negligence claim comes closer.

Similarly, the recipient of a bid should call in his internal accountant and auditor. Between them they should arrive at a valuation of the shares and it is doubtful if they can do so without applying investigation methods.

If the bid is to be settled by shares of the offerer, in whole or part cash, a similar investigation should be made in order to value the offeror and see if the offer matches the value.

14. Except to discuss the management appraisal sections of a modern investigation report, it can follow the routine well stated in accounting textbooks. Nevertheless, a check list, helpful for mergers and called 'Twenty take-over points', appears as Appendix A, and it should be read at this point.

Management appraisal is not the task of the investigating accountant but of the principal concerned. Nevertheless, information on which the appraisal can be made most certainly is; so much so that the information for appraisal normally takes approximately one-third of the total report.

It includes a chart of the management structure, reciting the duties, ages, length of service, salary and perquisites, duties and a chart of subordinates down to intermediate management level. Most important of all, it also includes a chart of the coming generation of executives and information on them largely similar to that given for the executives themselves. Past history of executives in and out of the company is also relevant. A good management informs itself adequately. Therefore, the investigating accountant would give an epitome of the management information routines, listing the documents presented to each executive, when, how and by whom, noting the actions taken and generally discussing the flow of information upwards and downwards. Of equal importance to good administration is the flow of information upwards on which policy can be made, as well as instructions given downwards.

The term 'pyramid of information' is gaining popularity and aptly describes the destination of management information. In most companies other than the smallest, there is a hierarchy of management indicating the chain of line responsibility. At the top of the pyramid is the managing director, who receives summarized information sufficient for him to discuss with his executives problems which lie within the executives' area of responsibility. Each subordinate receives, in turn, information for him to pass instructions down, until lastly the charge-hand responsible for a production batch or salesman in the field, is properly informed for the better carrying out of his work.

Information on the regularity of comparisons of budgets with actual, the method by which departmental budgets are built up, the effect of budget comparisons on finances would also be the subject of report. Its use is of material importance on management appraisal.

Capital asset budgeting, expected yields from new assets, provision of funds for purchase, depreciation policies, comments on engineering maintenance policy, would also be included in the report. The method of using these documents would all help in the important task of management appraisal.

Unless the investigating accountants report fully on the records of such matters, appraisal of the management is all the more difficult.

15. Current value of assets and liabilities having been substituted for book values, a figure for net tangible assets can be calculated.

On this figure must be superimposed a value based on earnings. This is computed by adjusting a profit and loss account history for a suitable number of years, and ten years is not necessarily the right span, in order to arrive at the probable future maintainable profit. The usual adjustments for non-recurring revenue and expenditure, special items, changes in the nature of the trade, are made before arriving at the probable future maintainable profit. Profit prospects should also, in my opinion, be discussed as the future may depend on future policies; the new shareholders may have expansionist intentions, the removal of old restraining hands may be contemplated, and a new managing director may change the morale of the concern.

In closely-knit family companies it is also necessary to look carefully into any remuneration paid to members of the family. Where shareholdings are closely held, the scale of remuneration of members of the family may be on the generous side and suitable adjustments should be made to historical figures before arriving at probable future maintainable profit.

16. Valuation follows investigation and there are two distinct steps. When the report is complete it should be fully discussed with the persons commissioning the report, taking into account all aspects of the information in the report, including the all-important management appraisal; a fair estimate is then made of future maintainable profit. This is the end of step one and determines the probable or expected profit if, in general, the company continues to do what it has done in the past, in the same place, with the same tools, using the same personnel.

Step two is the capitalization of those earnings. Again this is not a paper on valuation; the chartered accountants who have been concerned in the company's problem up to this stage are perfectly capable of calculating and putting a value on capitalized earnings. Whether price/earnings ratios of companies in a similar field is used or years purchase, or indeed any other method depends on all the relevant circumstances.

17. If the capitalized earning value exceeds the new net tangible asset value, there is a positive goodwill which should be added to the net tangible value as an asking price, but if it is less than the new tangible asset value the goodwill is negative and might have to be deducted, although net tangible assets value may be the least to be asked.

18. At this stage, knowing the revalued value of the assets and modifying their intrinsic value for their earning value, one can divide by the number of shares in issue to arrive at the value of each share.

The price and the method of satisfying it

19. To go from value to price is a matter of negotiation, force of debate, quick riposte and nimble brain. The chartered accountants who did the valuation are not necessarily the right men to negotiate the price although they well might be. The qualities required to investigate

and value, probe, inquire, check, verify, conclude and present, may well be different from the qualities of negotiation, and most chartered accountants acknowledge it.

In the following paragraph, the chartered accountants still have a valuable part to play because each bid and counterbid must be compared as to its value against each proposed share price; if a share exchange is proposed, it has to be critically evaluated.

At each stage, regardless of whether he is on the side of the bidder or the recipient, the chartered accountant must be alert to the comparison of price with value. For instance, on the bidder's side the price must not be allowed to be forced up on prospects which arise solely from the skill and hard work which he will eventually put into the combined enterprises. Conversely, on the recipient's side, history, good work, contacts, a clientele and indeed a business in being, has its value and must not be denigrated.

20. The bid may be made in a variety of ways. The offer may be for cash, an exchange of shares, a mixture of both, or a mixture of cash, shares, loan stock, convertible loan notes or an infinite variety of methods. Sometimes the offer contains, in addition to proposals for shareholders, an inducement to the recipient board to retire; this is known as the 'golden handshake' and is discussed elsewhere in this paper, paragraph 27 (A6 and C).

The bid may be a conditional bid, dependent upon acceptance by the recipient shareholders of a minimum proportion of the total shareholding. This is quite a usual procedure and generally means that the offerer company is content to have minority shareholders in the subsidiary. Where shares are exchanged, offerers usually want to see the entire shareholding in their hands, but there is nothing to stop a minority remaining even when the sole basis of offer is share exchange.

At times, certain classes of shareholding are left outside the bid. This would happen where the coupon on preference shares was an advantageous one, or the terms of the preference holding were advantageous to the company.

Instead of the shareholding of the recipient being acquired, the proposal might be for acquisition of the whole concern and undertaking. In such cases, if the consideration were shares in the offerer company, for distribution to shareholders of the recipient company if it were then to be liquidated, it could be of importance to examine the method of recording the acquisition of the undertaking in the offerer's books and any consequent effect on the future value of the offerer's shares. This point is discussed in paragraphs 28–38.

Liquidation of a shell consisting of shares or cash has its capital gains tax aspects and these should be carefully examined by the auditors, internal accountants and tax consultants.

21. Stamp duty, tax losses, possible capital gains tax, the level of any pre-acquisition profits, the effect on capital gearing, the inability to transfer contracts and even at times the personal feelings of directors and the effect on their prestige, the possibility of a general meeting of the offerer company to raise borrowing limits, all have to be taken into account in deciding how to satisfy the bid.

In addition, plans have to be made for the conditions of the bid, both of time and number, and tactics decided for non-accepting shareholders. The rights and remedies of non-accepting shareholders are discussed in paragraph 40 of this paper.

22. The bid for cash is the simplest of all. Generally the offerer makes a bid to acquire from shareholders of the recipient company all the shares of a class or classes, at a price. Sometimes the offerer already owns some of the shares, but usually the offerer sets out to get the total required for him to obtain the rights of compulsory purchase. However, the offerer ordains the conditions of the offer, relieving those conditions entirely at his discretion.

At times, a partial bid is made, meaning that the offerer will acquire from shareholders of the recipient company, at a price, a specified number of a class of shares. This is usual when the offerer is short of cash and does not mind leaving behind a minority shareholding, being quite content with legal control. Additional conditions may be notified as to how acceptances will be treated, e.g. first come first served, *pro rata* of all acceptances received, even arbitrary choice of which acceptances will be returned as unsuccessful.

23. Exchanges of shares may be common in the future in the case of medium-sized mergers. In such a case, after full investigation and valuation of both companies, a price tag is available for both companies. The simplest is for the offerer to propose that a certain number of its own shares be exchanged for a given number of the recipient shares. On acceptance in full, the recipient becomes a subsidiary of the offerer and recipient shareholders then become shareholders of the offerer. There will be times when such a merger opens both companies thus eliminating the past disabilities of being close companies.

A point to watch is the memorandum and articles of both companies; very often articles state that shares have to be offered in the first place to existing shareholders. Regardless of the commercial aspects of the merger, the professional advisers of both companies should be in constant touch and ensure that legal necessities, tax consequences within companies, values at which assets enter books, capital gains tax, if any, on disposals by yielding shareholders, renounceable allotment rights if advantageous, patent and process user of third parties' processes, are all examined and settled.

Misfeasance is probably not a live issue, but an accusation of misfeasance on the part of directors must not be ruled out. It could arise because aggrieved shareholders on the one hand feel that the merger terms are too low, or in the offerer company, that they are too high. Directors may have acted in strict accordance with memorandum and articles, for instance in disposing of a concern, but shareholders may feel that they should have been consulted in general meeting, or that the merger terms were wrong, or other reasons. All along, the professional advisers should be in the picture, giving their advice at the appropriate time.

24. The incorporation of a new holding company may be advisable, to hold the shares of both. It would still be necessary for the valuations to be made and the price of each share to be established. In such a case, a simple method would be to proceed under sections 206–208, section 209 or section 287 of the Companies Act 1948 – the reconstruction sections of that Act.

The new holding company might take over the concerns of the two former companies in exchange for its own shares, leaving the two former companies to liquidate, transmogrify into family investment companies, raise a debenture on the security of its shares in the holding company and start a new trade, in fact, act as they wish, within the powers contained in their memorandum and articles unless the merger terms precluded a specific course.

At times the holding company also issues debentures or loan stock, with or without convertible rights, and sometimes outside loan capital is brought in on these terms in order to strengthen the finances. Although there may be tax disabilities on convertible loan rights, they remain a popular method.

If the shares, or finally the concerns, of individual companies are taken over by a new company, it is very necessary to examine the tax position to ensure that the provisions of section 61 of the Finance Act 1965 (company reconstructions without change of ownership) yield their full advantages. Broadly, provided that three-quarters of the ownership of the old companies passes to the new company, the terms of the section will be satisfied.

25. The methods of merging are legion and each problem will have its own particular advantages in its individual case. Among the alternatives are:

(*a*) Cash bid by an offerer for all or part of the share capital.

(*b*) An exchange of shares so that shareholders of the recipient accept shares in the offerer in exchange for their own shares.

(*c*) Cash bid by an offerer for the concern of the recipient company's concern and undertaking.

(*d*) Exchange of shares into the recipient company in order to acquire the recipient company's undertaking.

(*e*) Where recapitalization of the recipient is necessary the allotment of a controlling interest to the offerer in exchange for cash.

(*f*) A mixture of (*a*) and (*b*), and (*c*) and (*d*).

(*g*) Mixtures of (*a*), (*b*), (*c*) and (*d*) but partly satisfied in loan stock with or without conversion rights.

(*h*) Mixtures, with the addition of outside capital or loan stock for strengthening finances for new assets or machinery of the merged group.

(*i*) Formation of a holding company to take over the shares of the merged companies.

(*j*) Formation of a holding company to take over the concerns of the merged companies.

(*k*) Either (*i*) or (*j*) with the addition of outside capital.

(*l*) Mergers under the reconstruction sections of the Companies Acts 1948.

(*To be continued.*)

Appendix A

TWENTY TAKE-OVER POINTS

(1) *Inter alia* the accountants' reports should discuss and comment on the matters below.

(2) Brief summary for past five years, sales, cost of sales, expenses and administrative expenses (in whatever form of management accounts are submitted) for:
  (*a*) retail,
  (*b*) wholesale,
  (*c*) manufacturing.

(3) Notes on exports as for (2) (*a*), (*b*) and (*c*) above, method of exporting, sales agents, shipping agents, confirming house arrangements, acceptance credit facilities.

(4) Notes on items of a non-recurring nature for (2) (*a*), (*b*) and (*c*) above and brief reasons therefor.

(5) Manufacturing – notes on sales mix and high profit lines,
  – work in progress levels,
  – standard or other costs.

(6) Some notes on the general development of (2) (*a*), (*b*) and (*c*) in recent years, but in regard to (*c*) brief particulars of research and development products. Those which have borne fruit and those now in process.

(7) Borrowings and interest on borrowings, history over five years.

(8) Brief notes on the relationship between cost accounts, management accounts and financial accounts – in particular, are they integrated in the manufacturing divisions? Recital of ratios used for management purposes and comments thereon.

(9) Budgets and forecasts showing anticipated future maintainable earnings and profits and opinions thereon of those competent to judge. Unusual variances thrown up by comparisons of past actuals with past budgets.

(10) Notes of special factors affecting the company or group over past five years and the estimate of savings which might accrue by a controlling interest only being acquired.

(11) Statement of directors' remuneration for past five years and notes on service agreements.

(12) Charts of management arrangements, continuity, responsibility and how 'next generation' of management being encouraged.

(13) Brief but general report of the general state of the manufacturing assets, and known intentions of replacements.

(14) Notes on any recent, even unofficial, valuations of fixed assets. What was the basis of valuation, going concern or intrinsic value?

(15) Brief notes on the stocks and work in progress; procedures for obsolete stock, slow-moving and damaged stocks, etc. Notes on the basis of valuation broken down as in (2) (*a*), (*b*) and (*c*) above. The nature and effect of variations, if any, in the basis of valuation over the past five years.

(16) Brief notes on debtors and the bad debt behaviour over past five years.

(17) Brief notes on non-trading items in debtors and creditors.

(18) Notes on borrowing facilities; interrelation with (17) above.

(19) In addition to (20) (*e*) – writing down allowances, position generally compared with financial written down values.

(20) Other relevant information, very brief highlights, e.g.:
  (*a*) rights of debenture-holders, bank for loan security;
  (*b*) forward contracts for materials;
  (*c*) capital commitments, capital projects;
  (*d*) S.E.T. planning;
  (*e*) taxation position generally;
  (*f*) pension arrangements, directors and employees;
  (*g*) possible necessity for more capital.

Treatment of Taxation in Accounts of Companies

New Institute Recommendation

The Council of The Institute of Chartered Accountants in England and Wales has made the following recommendation on the treatment of taxation in the accounts of companies. This replaces the earlier Recommendation N19 – TREATMENT OF INCOME TAX IN ACCOUNTS OF COMPANIES of November 1958 and the Council's interim booklet – NOTES ON THE TREATMENT OF TAXATION IN COMPANY ACCOUNTS AFTER THE FINANCE ACT 1965 of November 1965.

The recommendation does not deal with the special problems of particular types of company (for example, investment trusts) nor with special accounting problems affecting members of groups of companies. Subject to this, however, the recommendation seeks to deal with the majority of situations which may confront companies and their advisers in connection with the accounting treatment of corporation tax and income tax.

I REQUIREMENTS OF THE COMPANIES ACT 1967

THE specific requirements of Schedule 2 to the Companies Act 1967 regarding the treatment of taxation in the accounts of companies are as follows:

The profit and loss account

(*a*) To show:

- (i) 'The amount of the charge to revenue for United Kingdom corporation tax and, if that amount would have been greater but for relief from double taxation, the amount which it would have been but for such relief, the amount of the charge for United Kingdom income tax and the amount of the charge for taxation imposed outside the United Kingdom of profits, income and (so far as charged to revenue) capital gains.' (Paragraph 12 (1) (*c*).)
- (ii) 'The aggregate amount (before deduction of income tax) of the dividends paid and proposed.' (Paragraph 12 (1) (*h*).)

(*b*) To state by way of note if not otherwise shown:

- (i) 'The basis on which the charge for United Kingdom corporation tax and United Kingdom income tax is computed.' (Paragraph 14 (3).)
- (ii) 'Any special circumstances which affect liability in respect of taxation of profits, income or capital gains for the financial year or liability in respect of taxation of profits, income or capital gains for succeeding financial years.' (Paragraph 14 (3A).)

The balance sheet

(*a*) To state by way of note or in a statement or report annexed if not otherwise shown:

- (i) 'If a sum set aside for the purpose of its being used to prevent undue fluctuations in charges for taxation has been used during the financial year for another purpose, the amount thereof and the fact that it has been so used.' (Paragraph 11 (8A).)
- (ii) 'The basis on which the amount, if any, set aside for United Kingdom corporation tax is computed.' (Paragraph 11 (10).)

(*b*) 'If an amount is set aside for the purpose of its being used to prevent undue fluctuations in charges for taxation, it shall be stated.' (Paragraph 7A.)

(*c*) To show under a separate heading 'the aggregate amount (before deduction of income tax) which is recommended for distribution by way of dividend'. (Paragraph 8 (1) (*e*).)

2. Apart from these specific requirements, the accounting treatment of taxation must be consistent with the disclosure by the accounts of a true and fair view of the profit or loss for the accounting period and of the state of affairs at the end thereof. In the case of quoted companies, it is also necessary to take account of the requirements of the relevant Stock Exchange regarding the disclosure of matters affecting taxation, as for example, close company status.

II GENERAL TAXATION CONSIDERATIONS

Dividends

3. A company is subject to corporation tax on its profits, including chargeable gains, and bears the gross cost of the dividends it pays. The principle of deduction at source applies to dividends when paid, the company being required to account to the Revenue for the income tax deducted, either by direct payment or by set-off against any income tax which the company itself has suffered on dividends received from other United Kingdom companies. Such dividends constitute 'franked investment income' in the hands of the receiving company and are not subject to corporation tax.

Distributions other than dividends

4. The considerations set out in the previous paragraph regarding dividends apply also to a number of other transactions, termed 'distributions' (as defined in the Eleventh Schedule to the Finance Act 1965), by which a company may benefit its shareholders. Distributions are not allowed as deductions in computing the paying company's income for corporation tax purposes nor do they rank as charges on income. Income tax on distributions must be accounted for to the Revenue by the company which makes them in accordance with the procedure described in the previous paragraph and they constitute franked investment income in the hands of a United Kingdom company which receives them. For convenience, the term 'dividends' is used throughout this

document but similar considerations apply, unless otherwise stated, in the case of other 'distributions'. Some special situations are considered in paragraphs 67 and 68 below.

Annual payments

5. The gross amount of yearly interest, annuities and other annual payments (not being distributions) normally ranks as a deduction in computing the corporation tax liability for the period in which it is paid. In the hands of the receiving company income of this nature is assessable to corporation tax. As with dividends, the principle of deduction of income tax at source applies; companies are required to account to the Revenue for income tax deducted from payments made and are entitled to set off the income tax suffered on income of this class received. If such income tax suffered exceeds that deducted from payments made, the excess is set off against the appropriate corporation tax liability, if any, and the balance repaid. Accordingly, no charge for income tax suffered by deduction from income of this nature falls on the profit and loss account.

Income tax

6. It follows from the considerations in paragraphs 3 and 4 above, that, although the franked investment income which a company receives suffers income tax by deduction at source, the income tax may be set off against that which the company deducts from dividends paid in the same or subsequent fiscal years. Provided that the available franked investment income does not exceed the gross amount of dividends paid in the same fiscal year, no charge for income tax falls on the company. The converse situation where a company has 'a surplus of franked investment income', that is, where its franked investment income exceeds the dividends paid in the same fiscal year, is not usually found in trading companies and is considered in the appendix.

III THE PROFIT AND LOSS ACCOUNT

Corporation tax

7. The charge for corporation tax should be based on the profits shown by the accounts. The charge would usually be expected to be in appropriate relationship to the profit (excluding franked investment income and group income). This relationship will, however, be distorted if, in computing the income assessable to tax, the profits shown by the accounts have to be adjusted by:

(*a*) adding back expenses not allowable for tax in this or any subsequent period, such as depreciation of non-industrial buildings or excess remuneration of the directors of a close company; or

(*b*) excluding income not taxable such as interest on tax reserve certificates; or

(*c*) the difference between depreciation charged in the accounts and capital allowances computed for tax purposes; or

(*d*) the difference arising as a result of allocating items to different periods for accounting and taxation purposes as, for example, provisions and accrued charges on income which do not rank for taxation relief until the expenditure provided for is actually incurred or the charge actually paid.

8. The adjustment referred to in paragraph 7 (*a*) and (*b*) may be material, and even if they are not of an abnormal nature, they may then be considered to fall within the requirements of paragraph 14 (3A) of Schedule 2 to the Companies Act 1967 to disclose any special circumstances which affect the taxation liability.

9. The allocation of items to different periods for accounting and taxation purposes referred to in paragraphs 7 (*c*) and (*d*) will usually result in the taxation charge based on the taxable profit of the year not being in appropriate relation to the profit shown by the accounts. The extent of the distortion may vary from year to year and may not always be material. Nevertheless, such distortions should be avoided by providing for taxation on the accounting profit without regard to items allocated to other periods for taxation purposes. The difference between the corporation tax on the accounting profits and corporation tax on the taxable profit should be dealt with through the deferred taxation account. (See section V below.) There is normally no need to disclose separately in the profit and loss account the amount transferred to or from the deferred taxation account.

10. The rate of corporation tax is fixed retrospectively so that at the time accounts are completed, the actual rate may not be known for the whole or part of the accounting period.

Recommendations

11. (*a*) *The corporation tax charge should be based on the accounting profit without regard to the fact that some items are allocated to other periods for taxation purposes.*

(*b*) *If material items are altogether disallowed or excluded for taxation purposes, any consequent distortion of the corporation tax charged should be explained by note.*

(*c*) *The charge for corporation tax should be described as 'corporation tax on the profits of the year' (or other period), in order to comply with paragraph 14 (3) of Schedule 2 to the Companies Act 1967, which requires the disclosure of the basis on which the charge for corporation tax is computed.*

(*d*) *If the rate of corporation tax is not known for the whole or part of the period covered by the accounts, the latest known rate should be used and disclosed.*

Overseas taxation

12. A credit for overseas taxation is allowed against corporation tax on profits which would otherwise be doubly taxed.

Recommendation

13. *Compliance with paragraph 12 (1) (c) of Schedule 2 to the Companies Act 1967 will be ensured by disclosing the following:*

(*a*) *the amount of United Kingdom corporation tax*, from which should be deducted

(*b*) *the relief for overseas taxation*, leaving

(*c*) *the amount of United Kingdom corporation tax after relief for overseas taxation* to which should be added

(*d*) *the amount of overseas taxation, both relieved and unrelieved.*

(See appendix paragraph 3 (d) for disclosure of income tax borne by the company.)

Trading losses

14. The method selected for the relief of a trading loss may affect the corporation tax charge for the year in which the loss is incurred and also that for subsequent years. The provisions of paragraph 14 (3A) of Schedule 2 to the Companies Act 1967 are relevant to the accounting treatment of such relief which constitutes a 'special circumstance' requiring disclosure.

Recommendations

15. (*a*) *If a loss is set against other income of the same accounting period, corporation tax should be provided on the net income.*

(*b*) *If a loss is set against the profits of the preceding accounting period, the corporation tax recoverable should, if material, be disclosed separately.*

(*c*) *If a loss is available to be set off against the profits of succeeding accounting periods, the existence of the loss, if material, should be indicated by way of a note. It should be made clear that any tax relief is dependent on there being future profits of sufficient amount.*

(*d*) *If the corporation tax charged for a particular accounting period has been eliminated or materially reduced by losses brought forward, the amount of the relief should be indicated.*

Dividends payable

16. A company bears the gross cost of dividends, paying the net amount to its shareholders and accounting to the Inland Revenue for the income tax thereon as described in paragraph 3 above.

Recommendation

17. *Dividends paid or proposed should be shown gross in the profit and loss account; the net amounts and the income tax appropriate thereto may be shown inset, if desired.*

Franked investment income

18. The special nature of franked investment income is set out in paragraphs 3 and 6 above. In many companies the amount of such income will be of little or no significance.

Recommendation

19. *Franked investment income should be included in the profit and loss account gross of income tax and, where it is material, such gross amount should be disclosed. Except in the special circumstances indicated in paragraph 23 below, the amount should not be grossed up by the underlying corporation tax borne by the company paying the dividend.*

20. A company which has franked investment income in excess of dividends paid or payable bears income tax as well as corporation tax. Few trading companies are likely to find themselves in this position and the special problems which arise are considered in the appendix.

Group income

21. If companies are related in the manner described in section 48 (3) of the Finance Act 1965, they may elect, subject to the provisions of the Act, to pay and receive dividends passing between them without deduction of income tax. Such income is referred to as 'group income'. It does not constitute franked investment income but is not liable to corporation tax. To the extent that it is derived from subsidiary companies, it will normally be eliminated from the consolidated profit and loss account, but it may form a significant part of the company's profit or, if it arises from associated (consortium) companies, of the consolidated profit.

Recommendation

22. *Where 'group income' is material, the amount should be disclosed in the recipient company's profit and loss account or by way of note. Except as indicated in paragraph 23 below, the amount should not be grossed up by the underlying corporation tax borne by the company paying the dividend.*

Dividends from jointly-owned companies

23. Although dividends received from another United Kingdom resident company are invariably franked investment income or group income, the nature of the investment may, in some instances, be such as to justify the assimilation of such dividends, in the context of taxation, to trading profit. This involves bringing the dividends in question into the profit and loss account grossed up by the corporation tax borne by the company paying them. The corporation tax so added to the dividends would then be added also to the tax which is charged in the profit and loss account in respect of the recipient company's own profits, showing it separately if the amount is material. It is important that the accounts should make it clear that this basis has been adopted. This treatment is appropriate only where the shareholding in the company concerned (not being a subsidiary) represents a substantial participation in a trading enterprise which is, in effect, a partnership, consortium, or joint venture with other companies or persons. It should not be adopted unless substantially the whole of the profits of the jointly-owned company are distributed annually as dividend, and unless the dividends brought into account by the recipient company are in respect of a period concurrent, or nearly concurrent, with its own accounting period. Where the incidence of corporation tax on the jointly-owned company is materially affected by, for example, losses brought forward, or franked investment income received, care should be exercised lest the grossing-up of the dividends should have a misleading effect.

Summary (Profit and loss account)

24. In the absence of any charge in the accounts for income tax, the profit and loss account will disclose:

(*a*) Profit before taxation (which may include franked investment income gross of income tax and also group income).

(*b*) The charge for corporation tax and overseas taxation (if any).

(*c*) Profit after taxation.

(*d*) Gross dividends paid and proposed.

IV THE BALANCE SHEET

25. Corporation tax assessable on the profits of an accounting period, but unpaid at the end thereof, is not a reserve and should not be grouped with reserves; it is a liability at the date of the balance sheet and should be shown as such. If its amount cannot be determined with substantial accuracy, it should appear as a provision.

26. Depending on the date to which a company makes up its accounts there may be accrued corporation tax liabilities at the balance sheet date for two accounting periods. That for the later period may not become due for payment in extreme cases for almost twenty-one months.

Recommendations

27. (*a*) *The liability for corporation tax on the profits of the period covered by the accounts should be disclosed either as an item of current liabilities or as a separate liability with the due date for payment shown. Corporation tax for earlier periods not yet paid should normally be shown as such under current liabilities.*

(*b*) *Corporation tax recoverable should be included in the balance sheet either as a current asset or as a deduction from any liability to corporation tax.*

Income tax

28. As the income tax account is in the nature of a current account with the Inland Revenue, any amounts due to or from the Inland Revenue are respectively normal items of creditors or debtors. In the case of amounts due from the Inland Revenue, it is necessary to consider whether settlement is to be made by cash or by set-off against a corporation tax liability.

Recommendation

29. *Income tax for which the company must account to the Inland Revenue, or which is repayable to the company, may be*

included with creditors or debtors respectively and in normal circumstances need not be disclosed separately. Income tax which can only be recovered by deduction from a corporation tax liability should be deducted from the relevant amount.

Proposed dividends in the case of companies with franked investment income

30. The Companies Act 1967 provides that proposed dividends shall be shown gross in the balance sheet. If income tax suffered by deduction from franked investment income is available to set against the income tax liability which will arise when the dividend becomes due and payable, this may appropriately be shown, if material, as a deduction from the gross amount of the dividend.

Recommendation

31. *Income tax deducted from franked investment income which is available for set-off against the income tax liability arising when a proposed dividend becomes due and payable should, if material, be shown in the balance sheet as a deduction from the gross amount of the dividend or, if not material, it may be carried forward as an addition to debtors.*

V THE DEFERRED TAXATION ACCOUNT

32. As mentioned in paragraph 9 above, the corporation tax charge in the profit and loss account should be based on the accounting profit without regard to items allocated to other periods for taxation purposes. In the balance sheet, the liability for corporation tax will represent the amount actually assessable in respect of the accounting period. The difference between the charge and the liability, if material, should be passed through the deferred taxation account, although in order to avoid undue complexity, its use is normally restricted to those items which cause major differences between accounting profit and assessable profit. The purpose for which the account will most frequently be used is to adjust for the differences between capital allowances given for tax purposes and depreciation charged against profit in respect of the same assets, and this will usually ensure that a credit balance is maintained on the account. Other credits to the account will result from following the recommendations set out in section VI below, regarding capital surpluses not immediately taxed. The presumption is that amounts included in the balance at the credit of the deferred taxation account will be required at some future date or dates to meet taxation liabilities relating to profits or surpluses already brought into account or resulting from the acceleration of tax relief in relation to the corresponding charges against profit. The balance should, therefore, be regarded not as a reserve but as a deferred liability. The fact that as elements of this liability mature they are replaced by new deferments does not alter the character of the balance.

Recommendation

33. (*a*) *A deferred taxation account should be established and maintained at current rates of taxation whenever there exist material taxation liabilities which may crystallize at some future date on profits and surpluses already brought into account.*

(*b*) *As regards assets on which capital allowances cumulatively exceed the charges for depreciation in the accounts, the deferred taxation account should provide for tax on the excess of:*

(i) *the net amount at which the relevant assets are stated in the balance sheet over*

(ii) *the written down value of those assets for taxation purposes.* (*See paragraphs 48 and 49 below dealing with cases where assets have been revalued.*)

(*c*) *A credit balance on the deferred taxation account should not be treated in the balance sheet as a reserve or grouped with reserves. It should be separately stated, but may be grouped with any liabilities or provisions which fall outisde the heading of 'current liabilities'.*

Treatment of debits to the deferred taxation account

34. Examples of circumstances in which debit entries arise in the deferred taxation account are as follows:

(*a*) Where an expense has accrued (for example, annual interest) but corporation tax relief is not given until the payment is made, which may be in a subsequent year.

(*b*) Where a provision is made (for example, for deferred repairs or unspecified doubtful debts) but corporation tax relief is not given until the expense or loss is incurred.

(*c*) Where an expense is incurred and paid but the tax allowance is spread forward (for example, lump-sum back-service contributions to a pension fund).

35. A debit balance on the deferred taxation account can only be realized if there are adequate future profits. Accordingly, it should not be carried forward unless its realization out of profits in the next succeeding period is reasonably certain.

Recommendation

36. *If a debit balance arises on the deferred taxation account, it should be written off to the profit and loss account, unless its recovery against the profits of the next succeeding period is reasonably certain. Where the amount so written off is material it should be disclosed in similar manner to the existence of tax losses carried forward, as recommended in paragraph 15 (c) above.*

Changes in the rate of corporation tax

37. The deferred taxation account is intended to provide for a future liability at future rates of tax, but as those rates are unknown, this object can never be achieved with certainty or precision. Nevertheless, as changes in the rate of corporation tax take place, it should be recognized that the basis on which past provision has been made has become out of date, and the balance of the account should be adjusted accordingly.

Recommendation

38. *When a change in the rate of corporation tax has taken place, the entire balance of the deferred taxation account (and any amount of future tax or tax relief shown by way of note) should be correspondingly adjusted. To the extent that the adjustment relates to entries made in previous years, the amount, if material, should be disclosed.*

Trading losses carried forward and the deferred taxation account

39. The effect of trading losses on deferred taxation requires consideration. On the one hand, trading losses will operate to reduce a future liability to the extent that such losses can be set off against income subsequently arising from the same trade. On the other hand, the deferred taxation account represents a possible future liability to tax but may include provisions for tax on income against which a trading loss can be set as well as that against which it cannot be set. It may also include future liabilities to tax on capital gains.

Recommendations

40. (*a*) *When a trading loss has been incurred, and is to be carried forward, a transfer should be made from the*

deferred taxation account to the credit of the profit and loss account of an amount equal to the notional tax relief attributable to the loss, but not exceeding that part of the balance of the deferred taxation account which represents tax on income from the same trade. If account is taken in this manner of the whole of a loss the need for the note recommended in paragraph 15 (c) above will be obviated. If only part of the loss is so treated, any amount given in the note should be appropriately reduced.

(*b*) *When a transfer has been made under (a) above, then as and when a trading profit is subsequently earned, against which the loss can be set for assessment purposes, a transfer should be made from the profit and loss account to the credit of the deferred taxation account of an amount equal to the actual tax relief resulting from the loss, but not exceeding the amount previously transferred in accordance with (a). In indicating the relief obtained, as recommended in paragraph 15 (d) above, it should be borne in mind that a part or the whole of the loss relief will have been credited to the profit and loss account under (a) above in an earlier year.*

VI REALIZATIONS AND REVALUATIONS OF ASSETS

Surpluses on capital assets

41. A capital surplus may be either realized (as when an asset is sold) or unrealized (as when a revaluation takes place and the assets are stated in the accounts at a higher figure than before). The special considerations which arise in the latter circumstances are dealt with in paragraphs 46 to 55 below and include those which arise when the book value of investments is adjusted annually to market value.

Realized capital surpluses

42. If a capital surplus is realized which gives rise to a chargeable gain, it is necessary to provide for the corporation tax thereon.

Recommendation

43. (*a*) *The corporation tax on a chargeable gain should be charged to the account to which the surplus itself is credited.*

(*b*) *If trading losses are set-off against chargeable gains and the amounts are material, the appropriate accounts should be so adjusted as to show the true incidence of the tax on the chargeable gain and the relief for the loss.*

Surpluses on business assets replaced

44. Where a chargeable gain arises on the disposal of business assets and the proceeds are used to acquire new assets of the same class, an election may be made to treat their cost for corporation tax purposes as reduced by the amount of the chargeable gain. If only part of the proceeds is so used, the relief is restricted accordingly. The effect is to postpone settlement of the tax liability until there is a chargeable gain arising on the disposal of the assets without replacement. It is desirable to provide in the accounts for this liability, even though its settlement is postponed, out of the surplus arising on the sale of the original assets.

Recommendation

45. *If a surplus arises on a disposal of a business asset and an election is made so that the cost of the replacement asset is reduced for tax purposes by the amount of the chargeable gain, corporation tax on the gain should be charged against the surplus and credited to the deferred taxation account at the time of the replacement.*

Unrealized capital surpluses

46. If a capital surplus arises from a revaluation incorporated in the accounts the surplus is normally credited to reserve. When the revalued assets are eventually disposed of there may be a liability to corporation tax, and to the extent that the chargeable gain is a reflection of the surplus created by the revaluation, the tax should be regarded primarily as a charge against the reserve to which the surplus was taken. Alternatively, part of the surplus may be appropriated specifically for this purpose and only the net amount taken to reserve. In any event the existence of the contingent liability needs to be recognized and its amount disclosed.

Recommendation

47. *When assets are written up in the accounts on a revaluation, the corporation tax on any chargeable gain which would arise on a sale of the assets at the date of the balance sheet at the amount of the revaluation should be either:*

(*a*) *charged against the surplus on revaluation and credited to deferred taxation account; or*

(*b*) *stated in the note on the accounts and continue to be so stated – the note should make it clear that no provision has been made out of the surplus for this potential liability.*

There may be circumstances, such as where the early disposal of the asset concerned is in contemplation, in which the former treatment is the more appropriate.

48. If a capital surplus arises from a revaluation of assets which attract capital allowances, a balancing charge may arise on disposal, as well as (or instead of) a chargeable gain.

Recommendation

49. *When assets which attract capital allowances are written-up in the accounts on a revaluation, there should be charged against the surplus on revaluation and credited to the deferred taxation account (in addition to tax on any chargeable gain) the tax on any balancing charge which would arise on a sale of the assets at the amount of the revaluation. If the recommendation in paragraph 33 (b) above has been followed, this provision should be reduced by any amount already effectively provided thereunder for tax on the difference between the pre-existing book values and the tax written-down values of the assets concerned.*

50. An asset which has been written up in the past may either be sold or subsequently revalued at a figure below the written-up amount. This most frequently occurs in the case of investments stated in the accounts on the basis of market values at the date of each balance sheet.

Recommendation

51. *Where corporation tax has been provided in the past on a capital surplus in accordance with paragraph 47 (a) above and a realized or unrealized capital deficit later arises on the same asset, a transfer should be made from the deferred taxation account and credited against the deficit. The amount transferred should be the lesser of (a) the tax provided out of the original surplus, and (b) tax on an amount equal to the subsequent deficit.*

Market values stated by way of note

52. Where, as in the case of investments, a note of market value is given, and this exceeds the book value, the absence of any reference to the potential liability to corporation tax may be misleading.

Recommendations

53. (*a*) *Where the market value of an asset is disclosed by way of note, this should include an estimate of any corporation*

tax which would arise if the asset were disposed of at the value noted.

(*b*) *If because of practical difficulties such an estimate is not made, the note of market value should include reference to the fact that had the asset been realized at the value noted, a liability to tax on any chargeable gain would have arisen.*

Estimation of potential chargeable gains

54. An item stated in the balance sheet at a revaluation, or an amount given by way of note as market value, may relate to a number of separate assets, for example, investments. If the realization of any of them at the value included in the stated total would result in an allowable loss, the claim for tax relief might depend on the date when other assets, producing chargeble gains, were realized.

Recommendation

55. *In applying the foregoing recommendations to an aggregation of a number of separate assets, the tax should be estimated on the basis that any allowable losses arising on some of the constituent items are offset against chargeable gains arising on others as on a simultaneous disposal.*

56. In the case of assets (other than quoted securities) acquired before April 6th, 1965, special difficulties arise in estimating the potential chargeable gain. Market value at April 6th, 1965, is one of the bases available for the computation, but it may be that this basis is not used, either because it is likely to prove disadvantageous, or because the value at that date is arguable and there is no means of establishing a value acceptable to the Inland Revenue in advance of the actual disposal. The alternative basis normally available, time apportionment, will then be considered and it is here that difficulties of estimation arise.

57. Where the time apportionment basis is applied, a potential chargeable gain can be arrived at by assuming a notional disposal at the balance sheet date, but with each year that passes a higher chargeable gain will be produced by substituting the later notional disposal date. Eventually a 'ceiling' may be reached by reference to market value at April 6th, 1965, if that value can be arrived at with sufficient exactitude.

Recommendation

58. *In the case of a revalued asset acquired before April 6th, 1965, where the time apportionment basis is appropriate for estimating the potential chargeable gain, the amount to be provided or stated by way of note should be the maximum potential tax liability capable of arising from a disposal at the stated value at any future time however long deferred. Alternatively, tax should be provided initially on the assumption that the asset is disposed of at the stated value at the date of the first balance sheet in which the revaluation appears, and additional provisions made annually on the basis of an assumed disposal at the stated value at the date of each subsequent balance sheet.*

59. The estimation of potential chargeable gains may prove to be burdensome, for example, where a large number of investments is concerned. Nevertheless, it is considered in order that the accounts may show a true and fair view, that every effort should be made, in accordance with the considerations set out in paragraphs 54 to 58 above, to give at least a fair approximation of the potential liability involved, however remote in time the prospect of incurring it may be considered.

Deficits on capital assets

60. A capital deficit may be either realized, as when an asset is sold, or unrealized, as when on revaluation an asset is stated in the accounts at a lower figure then hitherto.

Realized capital deficits

61. Although an allowable loss which cannot be relieved in the year in which it arises is available for set-off against future chargeable gains, it is not desirable to include in the balance sheet as an asset the corporation tax which may ultimately be relieved, because its recoupment is dependent on adequate chargeable gains arising in the future.

Recommendation

62. (*a*) *If an allowable loss is available for set-off against chargeable gains in future accounting periods, the existence of the loss, if material, should be indicated by way of note. It should be made clear that any tax relief is dependent upon there being chargeable gains of sufficient amount in the future.*

(*b*) *If the corporation tax on chargeable gains for a particular accounting period has been eliminated or materially reduced by allowable losses brought forward, the amount of the relief should be indicated.*

63. An allowable loss may become available for carry forward at a time when the deferred taxation account contains a provision for tax on potential chargeable gains. This is a situation similar to that described in paragraph 39 above in relation to trading losses, and procedures parallel to those recommended in paragraph 40 become appropriate.

Recommendation

64. (*a*) *If the deferred taxation account contains a provision for potential corporation tax on an unrealized capital surplus on certain assets, and on the disposal of other assets an allowable loss arises which can only be carried forward, a transfer should be made from the deferred taxation account to the credit of the account to which is charged the capital deficit on the disposal giving rise to the allowable loss. The amount transferred will represent tax relief for the allowable loss, but should not exceed the provision for tax on potential chargeable gains contained in the deferred taxation account.*

(*b*) *If, subsequently, an actual chargeable gain arises (other than one for which tax was originally provided in the deferred taxation account), and the allowable loss brought forward is set against it, it will be necessary to reverse the transfer made earlier in accordance with* (*a*) *above, appropriately limited if only part of the loss brought forward is used.*

(*c*) *One effect of applying the foregoing procedures will be to eliminate the need for, or to modify, the information which paragraph 62 above recommends should be given.*

Unrealized capital deficits

65. A capital deficit may arise when an asset is stated in the balance sheet at a revaluation or be implied by a note of market value (as in the case of investments) which is below the amount at which the asset is stated. As no allowable loss for corporation tax purposes can arise until the revalued asset is realized, no credit for relief should be taken, at least until realization occurs, when the considerations in paragraphs 61 and 62 above become relevant.

Recommendation

66. *Except as indicated in paragraph 55 above, no credit should be taken for any tax relief implied by the existence of an unrealized capital deficit.*

VII DISTRIBUTIONS OTHER THAN DIVIDENDS

67. Reference is made in paragraph 4 above to distributions other than dividends. Examples of such distributions are bonus issues of debentures or redeemable preference shares, premiums paid on redemption of shares and in certain circumstances, distributions of assets *in specie*. As in the case of dividends, the company making such a distribution is required to account for the income tax relevant thereto. Where possible, income tax will be deducted from the amount due, and only the net amount will be paid to the shareholders. Otherwise, the distribution will be 'grossed up', and the company will be required to account for tax on this amount. In either event, the tax should be dealt with, in the accounts of the company making such a distribution, in the same manner as the distribution itself so that the gross, or grossed up, amount of the distribution will be charged to reserves or, as the case may be, to the profit and loss account.

68. Distributions received are 'franked investment income', although those of the kind mentioned in paragraph 67 above are normally treated as capital transactions in the recipient company's books. The treatment in the accounts of the recipient company will follow that recommended in paragraph 19 above except that the gross amount will usually be credited to a reserve; or perhaps to an asset account, and not to the profit and loss account.

VIII CLOSE COMPANIES

Disclosure of status

69. Because of the special corporation tax and income tax provisions affecting close companies, information as to the company's status should be disclosed in accordance with the following paragraph.

Recommendations

70. (*a*) *The status of a company whether 'close' or otherwise, should be disclosed, by way of note.*

(*b*) *If the status of the company is open to doubt or has changed during the accounting period, this should be stated, together with a note of the basis on which the tax provision has been made.*

Special taxation considerations

71. If the company is a close company, it is necessary to consider the incidence of income tax upon a possible shortfall, under section 77 of the Finance Act 1965, unless the distributions paid or proposed or the requirements of the company's business are clearly such that no shortfall exists. The shortfall cannot normally be ascertained at the time when the accounts are prepared. Its existence or amount will depend on whether or not distributions for the accounting period are paid within twelve months[1] thereafter, and such dividends may be additional to those proposed in the accounts. It is, therefore, not appropriate to provide for the income tax on a possible shortfall in the accounts of the period to which it ultimately relates but the existence of the contingent liability should be referred to in an appropriate note. If income tax is payable in respect of a shortfall, it follows from the above that it must relate to a previous accounting period and accordingly the amount thereof should, if material, be disclosed.

Recommendation

72. *A note on the lines of one of the following paragraphs, as appropriate to the circumstances, should appear on the accounts.*

(*a*) If it is clear there is no material shortfall

'The company is a close company. No *material *shortfall can arise and no provision for income tax under section 77 of the Finance Act 1965 is necessary.'*

(*b*) In other circumstances

'The company is a close company and is therefore potentially liable to income tax on any shortfall of distributions below the required standard. It has not yet been established that the *dividends paid and proposed and other distributions *for the period satisfy this standard.'*

*Delete any words that are inapplicable.

It may be relevant, according to the circumstances, to state, in addition, what the maximum amount of such an assessment would be.

Where a note on the lines of (b) above has appeared on, or would have been relevant to, the accounts of a previous period, there should be disclosed:

(i) *The amount of any income tax paid or known to be payable in respect of a shortfall of that period; or*

(ii) *The fact that an assessment will not be made in respect of that period; or,*

(iii) *The fact that the matter has not yet been determined.*

Loans to participators

73. In certain circumstances a close company which makes a loan or advances money (otherwise than in the ordinary course of its business which includes the lending of money) to an individual who is a participator (or to his associate) is assessable to income tax on the grossed up equivalent of the loan, the tax being repayable when the loan is repaid. Income tax on such loans is thus comparable in class with the loans themselves.

Recommendation

74. *Income tax on a loan to a participator should be grouped in the balance sheet with the loan to which it relates. If the loan is one the disclosure of which is required by section 197 of the Companies Act 1948, the income tax relating thereto should also be disclosed.*

Disallowable remuneration etc.

75. In the case of close companies any disallowance for corporation tax purposes of items such as directors' remuneration in excess of the permitted standard, interest paid to participators etc. will create a distortion in the relationship between the profits shown by the accounts and the tax charge. In conformity with the principle enunciated in paragraph 8 above, this distortion should be the subject of an appropriate note.

Recommendation

76. *If the special rules relating to close companies result in the disallowance for corporation tax purposes of material items of expense and so distort the relationship between the profits shown by the accounts and the tax charge, the position should be explained in a note.*

IX TRANSITIONAL MATTERS

Reliefs from taxation

77. A company may obtain relief from income tax under the 'one-year surplus' or 'three-year surplus' provisions and from corporation tax (and possibly income tax) under the provisions

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[1] *Note:* Clause 23 of the 1968 Finance Bill proposes to extend this period to eighteen month as respects accounting periods ending after March 19th, 1967.

of section 87 of the Finance Act 1965 relating to the cessation of certain sources of income.

78. For years up to and including 1972–73, section 84 of the Finance Act 1965 provides for progressively diminishing payments out of public funds ('overspill' relief) to compensate companies for the fact that overseas taxation can no longer be set off against income tax.

Recommendation

79. *Relief arising in accordance with paragraphs 81 and 82 above should, if material, be disclosed as exceptional credits and described appropriately.*

APPENDIX

The treatment of income tax where a company has a surplus of franked investment income in an accounting year

1. If a company has 'a surplus of franked investment income' the treatment of the income tax suffered on the excess requires consideration. Although income tax on a surplus of franked investment income may be used to offset income tax on dividends which may be paid out of future profits, the declaration of future dividends to make this set-off possible should not normally be assumed. The income tax on the surplus franked investment income should therefore be written off. An exception may be made where it can be foreseen with reasonable certainty that in the next succeeding accounting period the dividends will exceed the franked investment income to an extent which will enable the surplus to be utilized.

2. A surplus of franked investment income is arrived at by reference to fiscal years. An accounting period usually includes parts of two fiscal years and, moreover, the accounts may provide for a dividend which will not be paid until after the commencement of a third. For taxation purposes, a surplus of franked investment income is carried forward from one fiscal year for set-off against dividends paid in another but it cannot be carried back. The charge (or absence of charge) for income tax in the accounts cannot therefore be arrived at by reference only to the respective totals of franked investment income and dividends included in those accounts but must take account of the incidence of those items as between different fiscal years.

Recommendation

3. (*a*) *In arriving at the amount of income tax to be written off at an accounting date in respect of a surplus of franked investment income, regard should be had to the incidence of the relevant items as between different fiscal years.*

(*b*) *A proposed dividend should, for this purpose, be regarded as reducing or extinguishing a surplus of franked investment income at the accounting date, notwithstanding that the dividend is not to be paid until after the commencement of a new fiscal year.*

(*c*) *Except as indicated in paragraph (b) above, income tax on a surplus of franked investment income should not normally be carried forward in the accounts in anticipation of its being used to offset tax on future distributions, but should be written off to the profit and loss account, unless its set-off against the excess distributions of the next succeeding period is reasonably certain.*

(*d*) *The amount written off should be disclosed in one of the following ways:*

(*i*) *The income tax written off on surplus franked investment income is shown as an element of the total taxation charge. The resulting balance of the profit and loss account may then be described as profit after taxation but its amount cannot be determined before the proposed dividends and it does not therefore represent the divisible profit.*

(*ii*) *A balance of the profit and loss account is struck after charging the tax on profits, namely corporation tax and overseas taxation, if any, but before charging the income tax written off on a surplus of franked investment income. This balance is described as 'profit after corporation tax (and overseas taxation)'. It cannot truly be described as 'profit after taxation' because of the charge for income tax still to be made. The income tax is then written off in the same section as the dividends as it is dependent on their amount. This method is based on the view that company profits do not attract income tax and that both for computing the dividend cover and maintaining comparability of profits, it is the figure after corporation tax but before income tax which is significant.*

(*e*) *If income tax written off but available for set-off against distributions in future years is material, the gross equivalent (i.e. the surplus franked investment income) should be given by way of note. It should be made clear that the tax thereon is available only against future dividends.*

(*f*) *If there is a surplus of franked investment income by reason of the receipt of a distribution of a capital nature (see paragraph 68 above) the income tax on the surplus should be written off against the reserve to which the gross or grossed up distribution has been credited.*

(*g*) *If income tax on dividends paid or proposed in any year is wholly or partially discharged by income tax written off in previous years, the amount so utilized should be credited to the profit and loss account (or, as the case may be, to the reserve mentioned in (f) above).*

4. Income tax borne on a surplus of investment income may be reclaimed under section 62, Finance Act 1965 in respect of trading losses, charges on income, etc., which have not been relieved against corporation tax. The charge for income tax in the profit and loss account may thus be reduced or extinguished by such a claim made or intended to be made, or it may be found that income tax charged in the accounts of a previous period is recoverable by this means.

5. A section 62 claim absorbs equal amounts of both trading losses and surplus franked investment income otherwise available for carry forward. The amounts to be noted under paragraph 15 (*c*) of the main document and 3 (*e*) of this appendix will, therefore, both be reduced accordingly.

6. Where in a subsequent fiscal year the company makes distributions in excess of its franked investment income, the whole or part of the trading loss is reinstated as a loss brought forward for corporation tax purposes. This will require disclosure in the manner recommended in paragraph 15 (*c*) or (*d*) of the main document, as appropriate.

Recommendation

7. *The charge for income tax in the profit and loss account may be reduced by any claim made or intended to be made under section 62, Finance Act 1965 provided both the franked investment income and the loss, expense, etc., relevant to the claim are included in the same financial period. Where the income or the loss, etc., relates to some other period, the relief, if material, should be disclosed separately in the profit and loss account.*

Finance and Commerce

Rolls-Royce

FAILURE to read the small print at the top of the Rolls-Royce profit and loss account will lead the reader into flights of fancy concerning an apparently vertical take-off in the group's turnover and profits in 1967. The small print shows that 1967 figures include a full year's results of The Bristol Aeroplane and Bristol Siddeley Engines companies as against something under three months in the comparative figures.

The Rolls-Royce profit and loss account does, however, begin where all good profit and loss accounts should – with total revenue. Costs of manufacture, selling and administration are then deducted to give a gross profit figure from which the first deduction is for research and development. Note 3 to the profit and loss account shows the make-up of this figure.

Rolls-Royce lives by research and development in its role as the most important manufacturer of aircraft engines in the world. Without continual and costly expenditure that role could not be maintained.

Note 3 leads on to Note 13 which explains the general treatment of the research and development costs with particular reference to the RB207 and RB211 engines for which orders had not been received at the financial year-end. Lord Kindersley, the chairman, commenting on this particular position, says, 'In view of the magnitude of the costs which will be incurred before any engines are delivered and in the light of the orders which have now been received your board has decided that it is right that these costs should be amortized over future sales.'

Work-load

Lord Kindersley comments that the next few months should see a further stage in decisions affecting the European Airbus which will use the Rolls-Royce RB207 engine. The selection of the RB211 engine for the Lockheed 1011 Trijet airliner will establish Rolls-Royce's range of advanced technology engines in the important American market and will assure a substantial work-load through the 1970s at a time when demands for many of the existing types of engines will be reducing.

To obtain the Lockheed order Rolls-Royce 'had to accept

ROLLS-ROYCE LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 1967

The Consolidated Profit and Loss Account incorporates the results of The Bristol Aeroplane Company Limited and Bristol Siddeley Engines Limited for a full year, whereas the comparative figures include the results of those companies from 7th October to 31st December 1966 only.

THE PROFIT HAS BEEN EARNED AS FOLLOWS	NOTE	1967	1966
		£	£
Revenue from all sources	1.	265,542,621	171,490,225
Costs of manufacture, selling and administration	2.	241,331,748	153,917,840
		24,210,873	17,572,385
Research and development	3.	5,687,822	6,817,835
		18,523,051	10,754,550
Interest charges	4.	6,695,824	2,325,059
Profit before taxation	5.	11,827,227	8,429,491
Taxation	6.	4,237,357	3,141,518
		7,589,870	5,287,973
Profit attributable to outside shareholders of subsidiary companies		113,287	19,398
Profit after taxation	7.	£7,476,583	£5,268,575

THE PROFIT HAS BEEN USED AS FOLLOWS		
To pay dividends:	£	£
Interim dividend of 4% (*1966: 2½%*)	2,238,803	633,543
Second interim dividend (*1966: 2½%*)	—	793,395
Proposed final dividend of 7.385% (*1966: 6%*)	4,142,996	2,864,127
	6,381,799	4,291,065
Less: Income Tax retained	273,623	621,589
	6,108,176	3,669,476
Retained in the business	1,368,407	1,599,099
	£7,476,583	£5,268,575

Notes on and forming part of the consolidated profit and loss account are given on page [85].

CONSOLIDATED BALANCE SHEET AT 31st DECEMBER 1967

ASSETS LESS CURRENT LIABILITIES	NOTE	1967	1966
CURRENT ASSETS:		£	£
Cash and bank balances		709,649	680,288
Short term loans		—	360,000
Debtors	8.	98,332,513	84,056,276
Stocks	9.	124,602,289	108,582,116
		223,644,451	**193,678,680**
CURRENT LIABILITIES:			
Bank overdrafts	10.	41,283,937	26,000,165
Acceptances		15,000,000	15,000,000
Creditors		64,243,565	78,414,750
Taxation		7,107,455	3,658,906
Proposed final dividend		4,142,996	2,864,127
		131,777,953	**125,937,948**
NET CURRENT ASSETS		**91,866,498**	**67,740,732**
Investments	11.	7,338,737	9,858,789
Property and plant	12.	55,176,552	43,169,688
Research and development	13.	8,296,000	6,327,000
Goodwill, patents and trade marks		24,708,745	24,708,745
		£187,386,532	**£151,804,954**
FINANCED AS FOLLOWS			
CAPITAL AND RESERVES:		£	£
Share capital	14.	56,020,074	47,735,454
Capital reserves	15.	37,792,880	24,424,441
Profits retained in the business	16.	30,017,973	28,938,468
		123,830,927	**101,098,363**
Debenture and Loan Stock	17.	48,572,073	38,596,937
Deferred liabilities	18.	14,484,419	11,783,167
Interests of outside shareholders of subsidiary companies		499,113	326,487
		£187,386,532	**£151,804,954**

On behalf of the Board

KINDERSLEY } *Directors*
DENNING PEARSON }

Notes on and forming part of the balance sheet are given on pages [85, 86 *and* 87].

ROLLS-ROYCE LIMITED

NOTES ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

The Consolidated Profit and Loss Account incorporates the results of The Bristol Aeroplane Company Limited and Bristol Siddeley Engines Limited for a full year, whereas the comparative figures include the results of those companies from 7th October to 31st December 1966 only.

1 REVENUE FROM ALL SOURCES

	1967 £	*1966* *£*
Sales	263,582,265	*170,276,484*
Royalties, etc.	1,255,060	*1,030,582*
Dividends from investments	595,296	*103,619*
Management fees	110,000	*79,540*
	£265,542,621	***£171,490,225***

Dividends from United Kingdom investments amounting to £578,100 are not subject to Corporation Tax in the company's hands.

2 COSTS OF MANUFACTURE, SELLING AND ADMINISTRATION

	1967 £	*1966* *£*
Include the following items:		
Depreciation on property and plant	7,893,643	*4,613,358*
Remuneration of directors of the parent company:		
Fees	10,419	*7,134*
Management including pension contributions	298,612	*202,927*
Transfer to provisions not capable of exact ascertainment:		
Additions to provisions for guarantee and retirement benefits	389,813	*(12,110)*
Auditors' fees and expenses	69,031	*36,252*

3 RESEARCH AND DEVELOPMENT

	1967 £	*1966* *£*
Assessed value at beginning of year of research and development recoverable from sales resulting from existing aero engine orders	10,544,000	*8,600,000*
Expenditure incurred during year after deduction of Government contributions	9,571,822	*7,017,835*
	20,115,822	*15,617,835*
Less: Assessed value at end of year of research and development recoverable from sales resulting from existing aero engine orders (*1966—excludes Bristol Siddeley Engines Limited £1,744,000*)	13,896,000	*8,800,000*
Net expenditure on RB207 and RB211 engines (See note 13)	532,000	—
	£5,687,822	***£6,817,835***

4 INTEREST CHARGES

	1967 £	*1966* *£*
4% Debenture Stock 1974/84	132,238	*135,680*
6½% Debenture Stock 1981/86	727,246	*738,417*
7¼% Debenture Stock 1986/91	725,000	*471,610*
7¾% Debenture Stock 1990/93	1,507,488	*114,658*
6¼% Debenture Stock 1970/81—Canada	72,302	*56,228*
7¾% Convertible Unsecured Loan Stock 1987/92	229,886	*58,169*
Bank overdrafts, acceptances and loans	4,173,124	*1,649,986*
	7,567,284	*3,224,748*
Interest and financing income received	871,460	*899,689*
	£6,695,824	***£2,325,059***

5 PROFIT BEFORE TAXATION

Profit before taxation includes the sum of £1.3 million resulting from changes made during the year to bring the accounting practices of Bristol Siddeley Engines Limited more closely in line with those of the parent company. Expenditure on the launching of the RB207 and RB211 engines amounting to £532,000 has been carried forward to be amortised against future sales. (See note 13).

More than normal provision has had to be made against the possibility of certain stocks exceeding requirements of the near future.

6 TAXATION

	1967 £	*1966* *£*
United Kingdom Corporation Tax on the profits of the year	1,870,257	*3,039,298*
Amount set aside for equalisation of tax relief in respect of:		
Research and development (see note 13)	1,651,000	*183,000*
Plant and machinery	951,936	*484,712*
	4,473,193	*3,707,010*
Less: Income Tax recovered	—	*75,000*
Investment allowance relief	237,000	*631,000*
Provisions no longer required	337,410	—
	3,898,783	*3,001,010*
Overseas Taxation	338,574	*140 508*
	£4,237,357	***£3,141,518***

7 PROFIT AFTER TAXATION

	1967 £	*1966* *£*
Group profit	7,476,583	*5,268,575*
Profit dealt with in the accounts of the parent company, including dividends from subsidiary companies	6,705,213	*5,001,985*

NOTES ON THE BALANCE SHEETS

8 DEBTORS

Debtors outstanding at 31st December 1967 include £4,033,696 (*1966: £7,612,012*) for sales to overseas customers on extended credit terms.

9 STOCKS

Group			Parent Company	
1967 £	*1966* *£*		1967 £	*1966* *£*
168,018,063	*138,262,074*	Stocks and work in progress, less provisions necessary to reduce to the lower of cost or net realisable value	154,908,975	*81,313,618*
43,415,774	*29,679,958*	Payments received on account	41,125,419	*18,195,525*
£124,602,289	***£108,582,116***		**£113,783,556**	***£63,118,093***

10 BANK OVERDRAFTS

At 31st December 1967 £1,487,972 (*1966: £2,865,877*) was secured by the assignment of Export Credits Guarantee Department policies covering certain deferred debts.

11 INVESTMENTS

Group			Parent Company	
1967 £	*1966* *£*		1967 £	*1966* *£*
—	—	In subsidiary companies at cost *less* amounts written off	71,101,231	*59,718,506*
—	—	Loans and current accounts	8,221,252	*16,381,577*
7,338,737	*9,858,789*	Other trade investments at cost	321,759	*133,950*
£7,338,737	***£9,858,789***		**£79,644,242**	***£76,234,033***

ROLLS-ROYCE LIMITED

NOTES ON THE BALANCE SHEETS (continued)

12 PROPERTY AND PLANT

Group 1967 £	Group *1966* £		Parent Company 1967 £	Parent Company *1966* £
132,648,964	*114,330,853*	Original cost	120,839,687	*61,516,103*
77,472,412	*71,161,165*	Depreciation	70,665,929	*35,936,276*
£55,176,552	***£43,169,688***	Net book value	**£50,173,758**	***£25,579,827***

An analysis of property and plant appears on page 21. [Not reproduced.]

13 RESEARCH AND DEVELOPMENT

In the case of engines currently in production or on order at the year end, an assessment has been made on established principles of the recovery of research and development expenditure to be expected from sales resulting from existing orders for engines and spare parts. After deducting the amount of further development expenditure expected to be necessary to fulfil these orders £13,896,000 has been carried forward in the accounts.

These established principles are, however, not appropriate during the early years of the development and production of the RB207 and RB211 engines, for which orders had not been received at the year end, and would be likely to distort the profit figures because of the magnitude of the expenditure and the uncertainty of the timing of the receipt of future orders.

Therefore, in respect of these engines it is intended to adopt the practice of amortising net launching costs over estimated future sales, and a sum of £532,000 representing such expenditure has been carried forward as an asset at 31st December 1967.

The tax equalisation account related to this expenditure has been increased to 42½% by the transfer of £1,915,000 of which £264,000 has been transferred from retained profits.

Group 1967 £	Group *1966* £		Parent Company 1967 £	Parent Company *1966* £
14,428,000	*10,544,000*	Research and development expenditure carried forward	14,428,000	*8,800,000*
6,132,000	*4,217,000*	*Less:* Amount set aside for equalisation of taxation on research and development	6,132,000	*3,520,000*
£8,296,000	***£6,327,000***		**£8,296,000**	***£5,280,000***

14 SHARE CAPITAL

	1967 £	*1966* £
Authorised		
Ordinary stock	53,753,351	*45,568,731*
Ordinary shares of £1 each	4,746,649	*3,931,269*
Workers' (1955) shares or stock units of 10s 0*d* each	6,500,000	*5,500,000*
	£65,000,000	***£55,000,000***

	Ordinary Stock £	Workers' (1955) Stock £
Issued		
At 31st December 1966	45,568,731	2,166,723
Issued during year:		
Rights issue—July 1967	8,184,620	—
Workers' (1955) stock	—	100,000
	£53,753,351	**£2,266,723**
	£56,020,074	

15 CAPITAL RESERVES

Group £		Parent £
	i Share Premium	
22,604,810	At 31st December 1966	22,604,810
9,207,697	On rights issue—July 1967	9,207,697
31,812,507		31,812,507
384,640	*Less:* Expenses of issue	384,640
31,427,867		31,427,867
	ii Other Capital Reserves	
1,819,631	At 31st December 1966	616,882
2,579,527	Investment Grants	2,175,387
1,487,322	Profits on sale of investments and fixed assets, less tax	499,760
42,510	Profit on redemption of debentures and sale of fractions relating to issues	42,510
436,023	Devaluation adjustments on conversion of assets and liabilities of overseas subsidiary companies	—
6,365,013		3,334,539
£37,792,880	Total Capital Reserves	**£34,762,406**

Investment grants of £4,545,510 (*1966: £1,157,657*) are anticipated in respect of capital expenditure on plant and machinery in 1967; 42½% of the grants have been allocated to tax equalisation reserve and the balance to capital reserve. Investment grants on capital expenditure in 1966 have been adjusted by 2½% to bring the tax equalisation reserve to 42½% of grants on expenditure to date.

16 PROFITS RETAINED IN THE BUSINESS

Group £		Parent £
28,938,468	At 31st December 1966	28,035,992
—	*Add* Income Tax relieved under Section 85 Finance Act 1965	353,755
123,680	Devaluation adjustments on conversion of assets and liabilities of overseas subsidiary companies	—
29,062,148		28,389,747
57,582	*Less* Adjustment to interests of outside shareholders of subsidiary companies	—
29,004,566		28,389,747
355,000	*Less* Appropriation to tax equalisation accounts	269,000
28,649,566		28,120,747
1,368,407	Retained in the business for the year	323,414
£30,017,973		**£28,444,161**

17 DEBENTURE AND LOAN STOCK

	1967 £	*1966* £
Details are as follows:		
4% Debenture Stock 1974/84 (secured)	3,270,001	*3,371,205*
6½% Debenture Stock 1981/86 (secured)	11,170,869	*11,255,869*
7¼% Debenture Stock 1986/91 (secured)	10,000,000	*10,000,000*
7¾% Debenture Stock 1990/93 (secured)	20,000,000	*10,000,000*
7¾% Convertible Unsecured Loan Stock 1987/92	2,977,800	*2,977,800*
Total Parent Company	47,418,670	*37,604,874*
6¼% Debenture Stock 1970/81—Canada (secured)	1,153,403	*992,063*
	£48,572,073	***£38,596,937***

The company is required to have £1,310,232 Ordinary Stock available between 1968 and 1970 for issue to holders of Convertible Unsecured Loan Stock. The amount of Ordinary Stock into which each £100 Loan Stock may be converted is:—in July 1968—£44, in July 1969—£42, in July 1970—£40 and so in proportion.

ROLLS-ROYCE LIMITED

NOTES ON THE BALANCE SHEETS *(continued)*

18 DEFERRED LIABILITIES

Group 1967 £	Group 1966 £		Parent Company 1967 £	Parent Company 1966 £
2,112,617	*2,810,097*	Corporation Tax payable 1st January 1969	1,067,000	*2,478,561*
7,295,282	*6,905,469*	Provision for future expenditure on guarantee and retirement benefits	7,273,207	*5,399,234*
5,076,520	*2,067,601*	Plant and machinery tax equalisation reserve	4,737,300	*1,202,000*
£14,484,419	***£11,783,167***		**£13,077,507**	***£9,079,795***

The plant and machinery tax equalisation reserve is equivalent to Corporation Tax at 42½% on the difference between the book and tax written down values of plant and machinery, and comprises:

	£
Balance at 31st December 1966	2,067,601
Transfer from retained profits	91,000
Appropriation from current year profits	951,936
Proportion of investment grants.	1,965,983
	£5,076,520

19 CONTINGENT LIABILITIES

There are contingent liabilities in respect of bills discounted of £920,000 (*1966: £850,000*) and for other matters estimated at £4,900,000 (*1966: £6,000,000*) including £3,000,000 in respect of an advance made to an associated company by the Finance Corporation for Industry Limited.

20 EXCHANGE RATES

Foreign currencies have been converted into sterling at the rates ruling at the date of the balance sheet, with the exception of the fixed assets of the Brazilian subsidiary, which have been converted at the rates ruling at the dates of acquisition.

21 CONTRACTS FOR CAPITAL EXPENDITURE

Group 1967 £	Group 1966 £		Parent Company 1967 £	Parent Company 1966 £
11,500,000	*8,600,000*	Approximate value of contracts	11,000,000	*6,500,000*

a variety of technical and commercial commitments over the years ahead – commitments which were necessary in the face of fierce competition from American manufacturers'. The selection of Rolls-Royce engines for the European and American airbuses 'should be seen as a major benefit of the merger with Bristol Siddeley Engines in that it was possible for the first time to mount a single all-British effort against American competition'.

Operationally, however, 1967 was not quite the year it was expected to be when the Rolls-Bristol merger was first agreed. Profits did not quite come up to forecast but further improvement is expected this year with turnover reaching the £300 million mark. The approach to that level has involved heavy capital spending and a substantial increase in working capital finance by temporary borrowing during a period of high interest rates.

Further funding

During 1967 Rolls-Royce received £10 million from the final call on a debenture issue made in 1966 and last July raised £14·7 million through a rights issue. An intended further funding operation was postponed first by the uncertainties of the run up to devaluation and later by the need to concentrate energies on the Lockheed order and the uncertainties created by the intricate negotiations involved. Further funding of bank loans is currently in hand.

At the end of last year outstanding orders amounted to over £362 million without taking the RB211 Lockheed business into account, and financing of this position plus a higher level of capital and research and development spending makes Rolls-Royce continually thirsty for finance.

Of last year's £266 million of gross trading revenue, aviation activities accounted for 84 per cent and others for 16 per cent, with £168 million of revenue derived in the United Kingdom and £98 million in exports. The aero engine division of Rolls-Royce and Bristol Siddeley Engines together contributed 80 per cent of total sales and 83 per cent of profits before interest and taxation.

Bristol Siddeley's aviation earnings, however, were disappointing compared with pre-merger forecasts. A re-assessment of stock of spare parts has 'revealed the possibility of stocks being surplus to requirements to a greater degree than is usual'.

Wrong place

THERE is a time and place for everything, as someone must have said originally at some time. In company reports there is a place for illustrations provided they are not overdone and are not used as a hopeful method of drawing attention away from either bad figures or badly presented ones.

Illustration of what a company does and where it does it is part of good company reporting and good shareholder relationships. But there are times when even good pictures, well presented and worth while in terms of illustrating a company's products are annoying to the reader through being placed in the wrong position.

For instance, what possessed the compilers of the Scribbans Kemp report to put four pages of glossy colour pictures slap between the balance sheets and the notes? To read the notes in conjunction with the accounts the reader either has to flip past the pictures and back again or, as this column did, tear them out. This irritating 'positioning error' was all the more unfortunate as the pictures themselves were excellent illustrations of the group's operations.

CITY NOTES

EVERYTHING in the stock-market seems to have got into gear at the same time. The gilt-edged market is recovering; equities continue to be helped by encouraging company news; merger and take-over activity apparently knows no bounds; and new issues are in spate.

Arrangement of further backing loans for sterling and the implication that, by sheer force of circumstances, there is now a greater degree of true international currency collaboration and a changing attitude towards currency structures as a whole, has been reflected in stronger sterling and a stronger gilt-edged market.

How close sterling, the dollar and the French franc were to devaluation two or three weeks ago will probably never be known or, at least, officially admitted until memoirs come to be written, but collapse must have been in sight. Anyway it was in clear enough focus for central banks, and the governments behind them, to appreciate a precarious situation.

It could be that the latest Basle exercise was a cementing of a crack rather than a papering of one. To that extent there is justification for a more optimistic view of the immediate currency outlook and for a firmer view that political prevarication will not, after all, waste the energy that industry has put into making devaluation work.

There can, as yet, be no certainty on that point. The Government may yet make the mistake of considering all economic problems on the point of solution.

RATES AND PRICES

Closing prices, Tuesday, July 16th, 1968

Tax Reserve Certificates: (29.11.67) Companies 4⅜%; 3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966	7%	Oct. 19, 1967	6%
Jan. 26, 1967	6½%	Nov. 9, 1967	6½%
Mar. 16, 1967	6%	Nov. 18, 1967	8%
May 4, 1967	5½%	Mar. 21, 1968	7½%

Treasury Bills

May 10 ..	£7	1*s*	7·13*d*%	June 14 ..	£7	3*s*	9·58*d*%
May 17 ..	£7	2*s*	4·09*d*%	June 21 ..	£7	3*s*	8·57*d*%
May 24 ..	£7	4*s*	0·76*d*%	June 28 ..	£7	4*s*	10·04*d*%
May 31 ..	£7	4*s*	9·88*d*%	July 5 ..	£7	4*s*	9·73*d*%
June 7 ..	£7	4*s*	3·30*d*%	July 12 ..	£7	3*s*	5·60*d*%

Money Rates

Day to day ..	5⅞–7$\frac{3}{16}$%	*Bank Bills*	
7 days	5⅞–7¼%	2 months ..	7½–7$\frac{9}{16}$%
Fine Trade Bills		3 months ..	7½–7$\frac{9}{16}$%
3 months ..	8½–9%	4 months ..	7½–7$\frac{9}{16}$%
4 months ..	8½–9¼%	6 months ..	7½–7⅝%
6 months ..	8¾–9½%		

Foreign Exchanges

New York	2·39⅛	Frankfurt ..	9·58¼
Montreal	2·56⅞	Milan	1489
Amsterdam ..	8·66$\frac{3}{32}$	Oslo	17·08¼
Brussels	119·60	Paris	11·89¼
Copenhagen ..	17·96	Zürich	10·28$\frac{5}{32}$

Gilt-edged

Consols 4% ..	52¾	Funding 6% 1993	83$\frac{7}{16}$
Consols 2½% ..	33½	Savings 3% 60–70 ..	90$\frac{9}{16}$
Conversion 3½% ..	47⅝	Savings 3% 65–75 ..	74$\frac{1}{16}$xd
Conversion 5% 1971	92$\frac{7}{16}$	Treasury 6½% 1976	93¾xd
Conversion 5¼% 1974	89	Treasury 3½% 77–80	71$\frac{11}{16}$
Conversion 6% 1972	94¼	Treasury 3½% 79–81	68¼xd
Funding 3½% 99–04	51$\frac{15}{16}$	Treasury 5% 86–89	74$\frac{1}{16}$
Funding 4% 60–90	95½	Treasury 5½% 08–12	75¾
Funding 5¼% 78–80	81⅝	Treasury 2½% ..	34
Funding 5½% 82–84	80$\frac{9}{16}$	Victory 4%	96½
Funding 5¾% 87–91	81¼	War Loan 3½% ..	46$\frac{15}{16}$

Correspondence

Future of the Accountancy Profession

SIR, – The correspondence published so far concerning the suggested integration of the major accountancy bodies has, in the main, been against amalgamation. The very close voting on Mr Tanfield's motion at the English Institute's annual general meeting indicates the very large body of opinion which is against integration of the profession.

So far as I can glean from what correspondence there has been and from Mr Tanfield's own comments at the Institute meeting, the sole motivation behind the opposition to amalgamation is a 'holier than thou' attitude. It is rather amusing to note that this attitude can be found in members of the other accountancy bodies, too, in relation to our own Institute members – see *Local Government Finance*, June 1968, correspondence column. Incidentally, I assume Mr Tanfield would be happy to amalgamate with the I.M.T.A. in view of the absence of any mention of this body in his motion.

Let me, therefore, please say a few words for what I am sure – if the truth were known – is a majority opinion of the profession that integration is not only desirable but an urgent necessity. It should not be a question of 'shall we' but rather 'how shall we'. My principal arguments run as follows:

(i) With the very large number of accountancy bodies each with varying qualifying standards, the profession as a whole is losing in status and prestige. A unified body such as is found in the legal and architectural professions would put us more on a par with the status of these professions. As an example, the top-level correspondence which is currently being conducted with the Chancellor of the Exchequer on taxation would carry so much more weight if it had behind it 99 per cent of the accountancy profession rather than a mere 50 per cent or so.

(ii) A single accountancy body would have the best brains of the entire profession to direct its policy and deliberate on its research committees etc. This is in no way a reflection of our present Council members, but the Institute does not have a monopoly of the best brains.

(iii) Mr Tanfield pinpoints this 'holier than thou' attitude of practising accountants in suggesting that the only real way to train as an accountant is in the professional office. This is a complete fallacy and an anachronism as all members who have left the profession soon realize. If these practising members knew the ridicule with which the professional auditor in the main attracts through his sheer *naïveté* they would soon press for a change in the professional training programme. A professional office gives excellent background training but only in industry and

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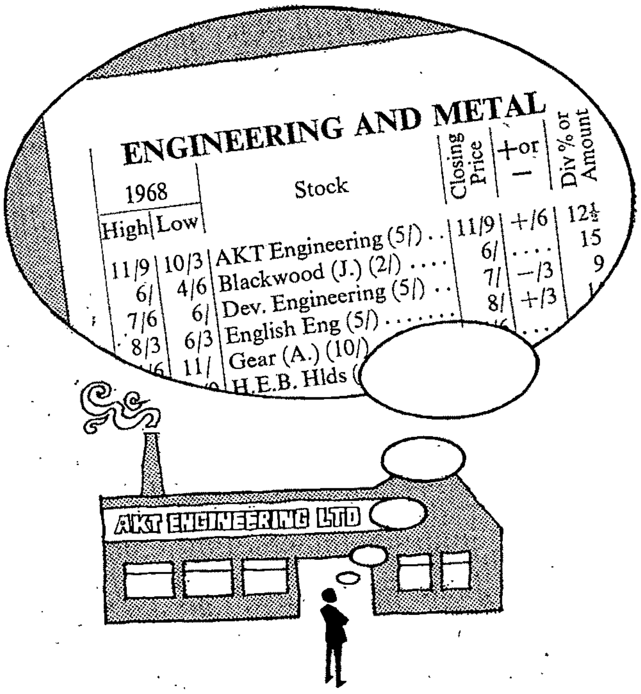
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commerce does one really begin to learn what makes the world tick.

(iv) Since one of the prime objects of amalgamation is to bring entry and examination levels on to a standard high quality, then it follows that in the immediately ensuing years we may find some of our colleagues have taken examinations which were slightly inferior. But in the long term, such standardization of the entry requirements can only be for the good of the profession as a whole. This is all part of uplifting the status of the profession.

(v) Any suggestion that amalgamation will alter the balance of qualified labour between one specialist field and another is erroneous. Without amalgamation it is quite possible for a qualified accountant who has the desire – and not every accountant has – to move into a field of work normally reserved for a specialist qualification. This he will do, if he has the ability and personality which would take him to the top of the tree in any profession, and in so doing he will leave a large proportion of the people with the normally accepted qualification behind (I know of a municipal treasurer who has done brilliantly in industry). Every existing accountancy body has its proportion of not-so-good men and of top-flight executives and the brilliant ones make their mark where they choose, integration or not.

(vi) Bringing accountants who are predominantly not in professional practice into the Institute would force the Council to realize, at last, that by far the majority of the membership falls into this category.

(vii) And finally, on a personal note, amalgamation should bring rationalization of administrative expenditure and hence better value for money so far as our subscription is concerned.

On the basis of these arguments it should be but a moment's decision that amalgamation must come. Then we could spend what time we have available discussing the more important and contentious details, such as how to give the correct training for students, what encouragement and recognition should be given to specialists (auditors are or should be specialists), the suggestion of a second tier of qualified accountant, etc. But then I could write several letters on these subjects.

Yours faithfully,

Belmont, Durham. A. J. ADAMS, A.C.A.

SIR, – I am astounded at the comments expressed by Mr E. J. Carroll in *The Accountant* of June 29th. It is a ceaseless source of amazement to me that 'chartereds' think themselves better trained and equipped for an accountancy career than 'certifieds'. Look at the situation as it stands:

(1) A chartered accountant has to spend a number of years in public practice under articles where he is trained in his profession. (Please see Mr Carroll's letter for full details.) However, this 'training' is often very sketchy and for all practical purposes, no better than a certified accountant's clerk studying for exams would receive. Indeed, from the large number of students I have known in practice it appears that certified accountants often give more responsibility over to their clerks than do chartered accountants. Surely no great difference here?

(2) Suppose the student does not want to practise but is more interested in a career in industry or commerce. A chartered student would still have to spend his 'time' under a practising accountant gaining a large amount of experience largely irrelevant to his future needs, whereas a certified student could train immediately in the work of his choice. Surely a much better training.

(3) How do the examinations compare? True the chartered exams have a bias towards pure accounting against the certifieds' bias towards cost accounting, but there is little difference here except that the several lecturers in accountancy I know who teach both certified and chartered students, are of the opinion that the certified exams are harder.

Now how can any reasonably-minded person, chartered or not, claim with any real justification that chartered accountants are superior?

Being a graduate of The Association of Certified and Corporate Accountants and a chartered secretary, I contest any assertion of chartered 'superiority' and can only put the attitude down to ignorance and the desire to let the public and management continue to think that chartereds are the chosen few. Afraid of the competition?

Yours faithfully,

Brighton. R. J. STACEY, A.C.I.S.

Form CT 62

SIR, – I have been deluged over the past few days with copies of form CT 63 from the Inland Revenue. This form reminds me that I have not completed form CT 62 which is, you will recall, the annual adjustment form which brings into line the payments made to and those due to the Inland Revenue under the monthly accounting procedure for tax on company distributions.

It might be worth reminding your readers that form CT 62 is not a statutory form. Furthermore, all the information which a company would enter into form CT 62 is already available to the Revenue in the form CT 61 which they have already received during the year. CT 62 is therefore entirely unnecessary except for the Inland Revenue's own purposes.

In view of the fact that companies are spending so much time and money on doing the Inland Revenue's work for them in other fields, I suggest that if the Inland Revenue wants to have form CT 62 completed, they should do it themselves.

Yours faithfully,

London SE1. LINDSAY DUNCAN.

Even Homer Nodded

SIR, – You mention on page 19 of your July 6th issue that Courtaulds Ltd published their full report for the year to March 31st on June 13th, and comment that 'six weeks from the end of the financial year to the issue of the full accounts' is good going for a group of that size.

Good going indeed, but if this arithmetic was typical of that used in producing the accounts it would confirm what I have long suspected and shows how it was done, i.e. that declared results in groups of that size are correct to the nearest million or so and include sufficient undisclosed reserves to keep the auditors happy and prompt.

Yours faithfully,

Wirral, Cheshire. L. W. DOCKERILL.

[Our City editor is on holiday – it seems he needed it! – Editor.]

Oxford Revisited

Impressions of a Chartered Accountant on Returning for Another Summer Course

IT all starts with the completion of the application form sometime back in the winter when July seems far away; but even then there is a sense of anticipation that comes with the knowledge of the intention of 'going to Oxford this year'. No *aficionado* could mistake this phrase – only a heathen would construe it as just a visit to the town for business or social purposes.

In the next few months one discovers others who are 'going to Oxford'; immediately memories are revived of outstanding events at earlier courses and there is a feeling of anticipation of the good things to come.

Arriving on the Thursday at the porter's lodge at Tom Gate during the afternoon, or at least before dinner in Hall, one gains the first glimpse of that magnificent building erected by Wolsey in the 1520s.

After dinner there is general assembly in Hall for a welcome and an informal talk by the Institute's first President from industry, Mr Stanley Dixon. It turns out to be a very warm welcome and a masterly discourse on the subject of integration.

There follow meetings for those interested in playing golf or tennis – and it's quite clear that the important business has now begun! Incidentally, these golf and tennis meetings always seem to be held in one room and the larger number of players of a particular game appropriate the only table available. It all seems to sort itself out, but one of these days a golfer in white shorts is going to find himself trying to hit a moving tennis ball with his driver.

In the meantime, back in the discussion rooms, introductions have started, the group leader is giving us the rules of the Summer Course game and we are each describing our backgrounds, being suitably modest about our few talents and apologising in advance for our lack of knowledge of anything, really. We have all come to learn and *this* factor is proved beyond doubt during the next few days. We retire early the first night (about midnight) because, after all, some have been driving all day, through floods, from faraway places.

A knock on the door at 7.45 a.m. by the scout heralds the first full day, and he softens its start with a cup of tea. We meet bright and early for breakfast in Hall, but it is one of those peculiar features of Oxford that the time of breakfasting gets later and the participants fewer as the course progresses.

The first paper is presented by Mr W. G. Medlam on 'The accountant's role in take-over bids'. The Bar certainly lost an advocate of considerable power when Mr Medlam became an accountant, for he left us convinced that anything a merchant banker could do, we could do better; and that the ratio of fees in favour of merchant banks (currently 20,000 : 3,000 – in guineas, of course) should be reversed.

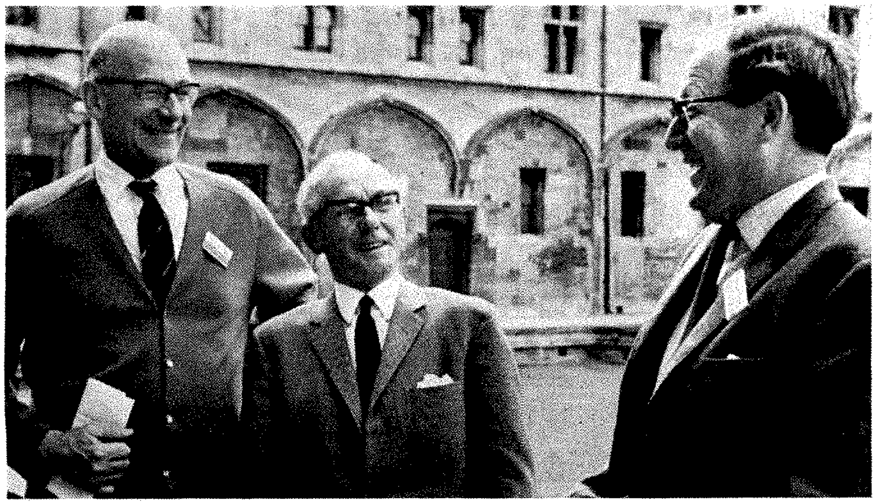
We all retire to our discussion rooms and talk about this subject and praise Mr Medlam for his paper and his presentation of it.

A free afternoon follows lunch taken in Hall and this means golf for some, tennis for some, (or a strange mixture for those who were confused by the meeting the night before). For others, there are visits to A. C. Neilsen & Co Ltd, Blenheim Palace or the Bodleian Library.

In the evening we assemble in Hall to hear Mr Medlam's replies to our questions. He deals with them all kindly but firmly. Then back to the discussion rooms, where the proceedings continue far into the night; with many tests being carried out to ensure that our beer barrel is still in working order.

Breakfast on the Saturday morning

'A' Group (*leader:* D. K. Adams, B.Com., F.C.A.) in session; *left to right* Messrs F. Broadie, F.C.A., W. G. K. Carter, F.C.A., J. G. Powell, F.C.A., R. W. Meynell, F.C.A., P. J. Akers, F.C.A., T. P. Lowe, A.C.A., and K. J. Dick, A.C.A.



The President, Mr Stanley Dixon, M.A., F.C.A. (*centre*), shares a joke with Mr H. T. Nicholson, F.C.A. (*left*), and Mr B. W. Sutherland, F.C.A.

produced (*a*) a lower demand and (*b*) a later demand, but as one member remarked – 'Thank heaven Christ Church has got the scrambled egg over with this morning'. Two days later and it really couldn't have been faced.

Next on the programme came Halmer Hudson's turn – and 'turn' it really was! The title of the paper was all right – 'Taxation aspects of reconstructions and amalgamations', and it was said to be the longest paper ever presented at a Summer Course. But it must really have been written as a reference book and, joy of joys, was not meant to be read! Indeed we began to wonder whether Halmer himself had read it, because without doubt he gave the most irrelevant and amusing introduction to a paper we had ever heard.

Our group then had a visit from the President who talked to us about many of the details of the integration plans. He was very impressive and there seemed to be very few points of criticism for which there were not safeguards built into the scheme. We all await the full details eagerly.

In the afternoon there was an opportunity to visit Waddesdon Manor built by Baron Rothschild. It is rumoured that the trip to this large manor house, with its priceless art treasures, was arranged by Mr Medlam as an example of the normal standard of living of a merchant banker, and the sort of thing to which accountants can aspire provided they regain their rightful position and, above all, reverse the ratio of fees.

Saturday night, and many of us attended a *son et lumière* in the grounds of Christ Church. It was a first-rate production and apart from the fascinating historical details, it illustrated well the human power of withstanding pressures from all quarters over a long period of time, and remaining true to its own ideals and faiths.

This was also the theme of the informal talk on 'Business and Government' on Sunday morning, by Mr A. A. Shenfield, the Director of the Industrial Policy Group.

In one of the most gripping and powerful speeches that any of us had ever heard, he made the case for a reversal of the present trend towards more Government control over economies, and pleaded for greater freedom for the forces of enterprise to prevail.

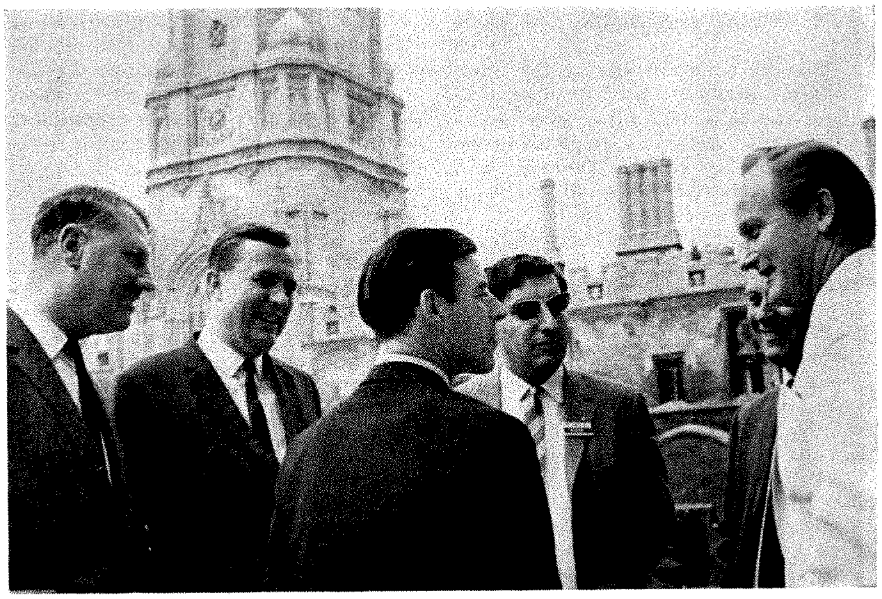
In the evening there was another informal talk – both light-hearted and informative – by Sir Bruce Fraser, K.C.B., on his job as Comptroller and Auditor-General. Then another session in groups until the small hours – although no group is actually on record as having heard the dawn chorus!

Last Monday morning Mr E. R. Nicholson, F.C.A., gave an enlightening paper about the problems arising from the disclosure provisions of the 1967 Companies Act, and the day then proceeded with group discussions, afternoon visits or free time, and a later 'talk back' session, until the grand finale – the Guest Night Dinner – in the evening.

The President proposed the toast of 'The University and Christ Church' and expressed the warm appreciation of the Institute to Christ Church for granting the use of the college for the twenty-second year in succession. Indeed, he said, the Summer Course at Christ Church had become a unique event in the calendar of the Institute's year. Mr R. Shackleton, M.A., F.S.C., Bodley's Librarian, responded to the toast.

Mr E. K. Wright, M.A., F.C.A., Chairman of the Courses Committee, welcomed the guests, among whom were Mr J. A. Stewart, C.A., President of The Institute of Chartered Accountants of Scotland, and Mr E. H. V. McDougall, Secretary of the Scottish Institute, who both attended part of the course. Mr Stewart replied to the toast and said that it had been a real pleasure to come to Oxford – a sentiment we all shared.

D.G.R.



Group leaders discuss a knotty point between sessions in the shadow of Great Tom.

The Institute's Technical Advisory Committee

President's Address

The 155th meeting of the Technical Advisory Committee of The Institute of Chartered Accountants in England and Wales was held in the Council Chamber at City House, 56–66 Goswell Road, London EC1, on Thursday, July 4th, at 2 p.m. There were present:

Mr H. G. Sergeant (in the chair); Messrs G. F. Appleton, R. B. Arrowsmith, G. Bar, B. D. Barton, B. E. Basden, C. I. Bostock, M. T. R. Brookman, R. P. Brown, B. H. Buckley, M. A. Charlton, P. G. Craven, T.D., N. J. Edwards, W. F. Edwards, A. C. Essex, R. Firth, C. R. P. Goodwin, D. R. Gray, A. P. Hughes, W. T. Hunter, M.B.E., D. J. Ironside, E. D. London, R. D. Pearce, B. G. Rose, M. Sheppard, D. H. Slade, N. Smith, K. R. Stanley, R. H. Taylor, A. G. Thomas, T. I. F. Tod, G. H. Vieler, R. F. Watkins, and J. A. P. Whinney, with Mr G. A. Slater, Secretary to the Committee.

Messrs W. S. Hayes, M. R. Harris, and G. M. Metcalf attended by invitation.

Address by the President of the Institute

The President of the Institute, Mr Stanley Dixon, M.A., F.C.A., attended the opening of the meeting. In reply to a speech of welcome by the Chairman, the President said:

'Thank you, Mr Chairman, for your very kind introduction, and thank you, members of the Technical Advisory Committee, for your kind reception of those remarks and for the welcome which you have given me this afternoon.

'It is by tradition one of the more pleasant tasks of the President to attend the first meeting of your committee partly, as it were, to give you the official blessing of the Council, and partly to wish you well in your labours for the coming year.

'It is, of course, a particular pleasure to any President who has himself occupied the chair which you, Mr Sergeant, are occupying at this moment. It is eleven years ago since Sir William Lawson attended in the old Council Chamber in Moorgate Place and wished me God-speed in my year of office as I am now expressing similar wishes to your new chairman, Mr Sergeant.

'The importance of the work of this committee is well exemplified by the fact that at yesterday's Council meeting it fell to me as President to bid farewell to three members of the Council, all of whom had graduated from the old Taxation and Research Committee and two of whom had been connected with that committee almost since its very inception. The three members in question were Garfield Goult, James Mann and Fred Weeks.

'The Technical Advisory Committee, however, has a far more useful part to play in the affairs of the Institute than merely to be a training ground for members of the Council. May I remind you, for a moment, of how and why the committee was formed in 1942. A report was presented by the Council and adopted at the annual general meeting of the Institute in 1942. In this report it was confirmed that membership of the Council should, as a general rule, be confined to practising members but it was recognized that "many members of the Institute take up whole-time appointments of responsibility and importance in commerce and industry; and that the wide practical experience of these members could clearly form a valuable contribution to the consideration, in association with practising members, of the ever-increasing financial problems of the business community – problems which, whilst not directly within the scope of the functions of the Council as such, are yet of importance to the profession."

Means of communication

'Thus, the Taxation and Financial Relations Committee was formed. We have moved a long way since the day when it was decided that the financial problems of the business community are not within the scope of the functions of the Council, but the significance of the work of the committee remains. The intention was to ensure that non-practising members, as well as practising members, should be represented equally on the committee and that the chairmanship should be held alternately by a member in practice and a member in industry. Moreover, regional Taxation and Research Committees were set up at an early date so that as many as possible throughout the country could be involved in the technical problems of the Institute.

'It has always seemed to me that these two provisions are of the greatest importance. The proceedings at the last annual general meeting of the Institute suggest that there has been a failure in communications and that in some way the Council has lost touch with the membership of the Institute. But the Institute is not an impersonal entity; it is the sum of all its members and the success of communications depends not only upon what is done by the Council at the centre, but the response which is made by all the members up and down the country. Here, in the setting up of the regional Taxation and Advisory Committees, is a means of communication ready to hand and yet we find it difficult to recruit members of the Institute, and particularly those in industry and commerce, to serve as members of those regional committees and in due course as members of the main committee. I do beg members, and particularly members in industry and commerce, to give the Institute the benefit of their experience in these technical matters and to come forward to serve on the regional committees and on the Technical Advisory Committee itself.

'One last word. I would beg you not to be too discouraged if sometimes there appears to be a frustrating and irritating delay between the date when you express your views on a particular document and the date when finally that document sees the light of day. I know by experience how discouraging this state of affairs can be. I can only say that this is constantly in the minds of members of the Technical Committee and of the Council itself.

'May I express to you on behalf of the Council our very great appreciation of the great service which you and your regional committees perform for the Institute and wish you, Mr Chairman, and your committee, all success for the coming year.'

Membership

It was reported that at its meeting on June 5th, the Council appointed the following members of the committee for 1968–69:

Messrs D. C. Burling, P. J. Cavanna, M. A. Charlton, D. A. Clarke, W. F. Edwards, N. C. Elliott, E. R. Nicholson, T. B. Pritchard, B. G. Rose, A. G. Thomas, G. H. Vieler, J. A. P. Whinney.

The Chairman extended a warm welcome to Mr R. P. Watkins (Leicester) who was attending for the first time.

Matters considered

Consideration was given to reports and memoranda on:

Decimal currency; accounting implications.
Revision of *Members' Handbook*, O2.
Matters arising from the continuing incapacity or death of a sole practitioner.

Future meetings

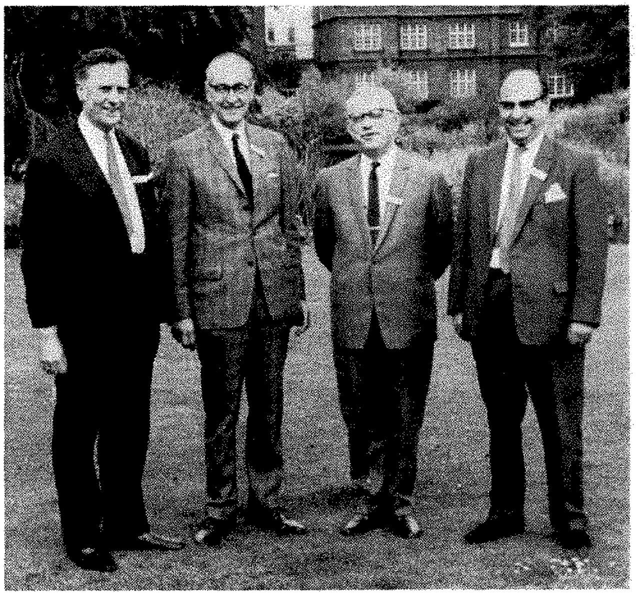
Meetings of the committee were provisionally arranged for 2 p.m. on Thursdays, September 26th, and November 28th.

Certified Accountants' Week-end School at Cambridge

OVER eighty members attended the annual week-end school of The Association of Certified and Corporate Accountants, held at Emmanuel College, Cambridge, from June 27th to 30th.

The theme of the school was 'Problems arising from recent legislation' and among the subjects on which papers were presented were 'Valuation of land'; 'Valuation of unquoted shares'; 'The Industrial Training Act 1964'; 'Government grants', and 'Company law'. On a further topic – 'The situation of the family business today' – five separate papers were presented covering the factors arising from company legislation, the effect of taxation, the decision on whether to dissolve, training board levies, and financing problems resulting from recent legislation.

After each of these sessions members took part in group discussions on the content of the papers and their allied topics. Their subsequent comments provoked much lively discussion with the authors, especially at the last session where the panel was presented with very definite views on the effects of some recent legislation.



Mr J. P. Landau, F.A.C.C.A., President of the Association, *second from right*, with, *left to right*, Messrs R. S. Waldron, F.C.A., F.A.C.C.A., C.P.A., A.M.B.I.M., a speaker; E. A. Lediard-Smith, F.A.C.C.A., Vice-President of the Association, and A. W. Nelson, F.A.C.C.A., a member of the Council.

Discussing the conference papers at an informal meeting. *Left to right:* Messrs P. J. Stevens, F.A.C.C.A.; P. Beck, A.A.C.C.A.; R. C. Cole, A.A.C.C.A.; P. Brian, F.A.C.C.A.; S. I. James, A.A.C.C.A., and J. E. Hope, A.A.C.C.A.

Notes and Notices

NEXT WEEK'S ISSUE

Considerable space in next week's issue will be given to the scheme for the development of the accountancy profession in the British Isles, details of which are due to be released that week-end.

We have – albeit with some reluctance in view of inconvenience to readers on various counts – acceded to a request by the Joint Steering Committee to conform to a Press embargo on the subject until Saturday morning. In consequence, distribution of the issue will be delayed for twenty-four hours, though we hope copies will reach their destinations by the week-end.

PROFESSIONAL NOTICES

Messrs Harmood Banner & Co, Chartered Accountants, of Cunard Building, Liverpool 3, and Messrs Roberts, Legge, Hubbard & Co, of 638–650 Sefton House, Exchange Street East, Liverpool 2, announce that their two firms have become associated. Messrs I. Legge, F.C.A., D. H. Hubbard, F.C.A., B. S. Hackney, F.C.A., J. H. Roberts, A.C.A., and I. A. T. Legge, A.C.A., have become partners in Harmood Banner & Co, and Messrs J. M. Harrison, T.D., M.A., F.C.A., H. C. Mounsey, F.C.A., R. N. Roberts, F.C.A., and G. F. Appleton, F.C.A., have become partners in Roberts, Legge, Hubbard & Co. For the time being both firms will continue to practise in their own names from their present addresses.

Messrs H. Edgar Hunt & Co, formerly of 98 Queen Street, Cardiff, announce that with effect from July 1st, 1968, they have amalgamated with Messrs Smale & Co, of Cardiff. The partners in the new firm, which will continue to be known as H. Edgar Hunt & Co, will be Messrs H. Edgar Hunt, F.A.C.C.A., A.C.I.S., K. G. A. Smale, A.A.C.C.A., and D. W. A. Found, F.C.A. The combined practices will be carried on from 20 Churchill Way, Cardiff. Telephones 29082–24636.

Mr A. R. Irvine, F.C.I.S., A.T.I.I., A.M.B.I.M., announces that he has commenced in public practice under the name of Roland Irvine & Co, at 10 Duffield Road, Walton-on-the-Hill, Tadworth, Surrey. Telephone Tadworth 2520.

Messrs Pittman, Wood & Co, Chartered Accountants, of 7 and 8 Chandos Street, London W1, announce that on June 29th, 1968, Messrs W. S. W. Fone, F.C.A., D. T. H. Nicholson, M.B.E., F.C.A., M. E. Hatch, D.F.C., F.C.A., P. J. Hawker, F.C.A., B. A. Kemp, F.C.A., and M. W. Dawson, A.C.A., joined the practice as partners. Mr E. T. Wood, F.C.A., retired from the partnership on June 30th, 1968, but will continue to be available in a consultative capacity.

Messrs Regoczi-Ritzman & Associates, announce that as from July 1st, 1968, they have taken additional larger offices at Centropa House, 27 Westbourne Grove, Bayswater, London W2. Telephone 01–727 6903.

Messrs Rooke, Holt & Company, Chartered Accountants, of 83 Ebury Street, London SW1, announce that with effect from July 1st, 1968, Messrs Knight & Company are joining them in association, and that Mr L. Colin Webber, F.C.A., has been admitted into partnership. Resident partners are now Messrs Maurice C. Holt, F.C.A., P. David Lyon-Maris, F.C.A., and L. Colin Webber, F.C.A.

Messrs Thornton Baker & Co, Chartered Accountants, announce that as from July 15th their West End office is situated at Dorland House, 18–20 Lower Regent Street, London SW1. Telephone 01–930 0334.

Messrs Wilson, de Zouche & MacKenzie, Chartered Accountants, announce that they have entered into an association in London with Messrs Jones, Robathan, Thompson & Co, Chartered Accountants, of 2 Old Burlington Street, London W1, with a view to an eventual merger of their London practices. Mr C. C. Taylor, F.C.A., Mr J. S. Sclanders, C.A., and Mr A. D. S. Robb, C.A., have been admitted into partnership in Jones, Robathan, Thompson & Co, and Mr H. F. Dauncey, F.C.A., has been admitted into partnership in Wilson, de Zouche & MacKenzie.

Messrs Peat, Marwick, Mitchell & Co, Chartered Accountants, and Messrs Jones, Robathan, Thompson & Co, Chartered Accountants, announce that they have agreed to merge their practices in South Wales with effect from October 1st, 1968. The South Wales partners of Jones, Robathan, Thompson & Co, will become partners in the South Wales practice of Peat, Marwick, Mitchell & Co, which will be carried on at Cardiff, Newport, Chepstow, Swansea, Carmarthen and Cardigan.

APPOINTMENTS

Mr Brian Arthur, A.C.A., has been appointed secretary of Royds London Ltd.

Mr S. V. Bishop, M.C., F.C.A., managing director of the British Printing Corporation Ltd, has been appointed to the boards of Canprint Holding Ltd and International Learning Systems Corporation Ltd.

Mr H. F. Gould, B.A.(COM.), F.C.A.,

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has been appointed secretary of Philblack Ltd.

Mr S. M. Lever, M.A., F.C.A., has been appointed to the board of Hardun Bux Holdings Ltd.

Mr J. Purdham, A.A.C.C.A., has been appointed secretary and chief accountant of The Press Association Ltd.

Mr K. Whinnerah, A.I.M.T.A., has been appointed chief accountant in the Tees-side Corporation Housing Department.

Mr K. M. Young, C.A., secretary of Rockware Group Ltd, and secretary and chief accountant of Rockware Glass Ltd, has been appointed a director of Rockware Glass Ltd.

DOUBLE TAXATION

U.K. – Lesotho

The agreement amending the arrangements made with Basutoland in 1949 was signed in Maseru on July 3rd. The text will shortly be published as a schedule to a draft Order in Council.

MANAGEMENT ACCOUNTANTS' RESIDENTIAL COURSE

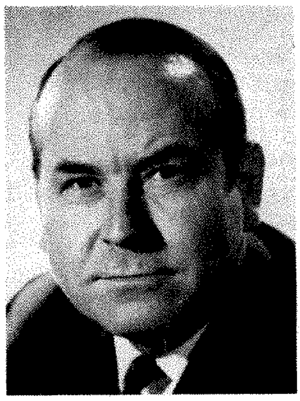
A week-end residential school for members of The Institute of Cost and Works Accountants is to be held at the University of York from Friday evening, September 20th, to Sunday, the 22nd. A Harvard case study is to be presented by Mr R. Frank, F.C.W.A., senior lecturer in management studies, Leeds College of Commerce, and Mr R. Warwick Dobson, C.A., F.C.W.A., acting chief technical officer of the Institute, will introduce a paper on 'Accounting for planning' – a new concept which members will be invited to discuss in syndicates during the week-end. The guest speaker after dinner on Saturday will be Mr J. G. D. Shaw, M.A., marketing manager, Rowntree & Co Ltd.

Members may also invite business colleagues and the registration fee of £10 should be sent without delay to Mr P. R. Hopwood, F.C.W.A., 'Greensleeves', Lord's Moor Lane, Strensall, York.

WEST OF ENGLAND SOCIETY OF CHARTERED ACCOUNTANTS

New President

Mr J. D. Askew, F.C.A., practising as Henry S. Gittings & Co, Chartered Accountants, of Cheltenham, has been elected President of The West of England Society of Chartered Accountants for 1968–69.



Educated at King Edward's Grammar School, Aston, Birmingham, Mr Askew served his articles with Howell & Sutton, Chartered Accountants, of Birmingham, and was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1948. During the Second World War he served in the Warwickshire Yeomanry and was demobilized with the rank of Captain in 1946. He joined his present firm in 1949 and became a partner in the same year.

Mr Askew is a member of the Commerce Advisory Committee of the North Gloucestershire Technical College and is a Governor of St Benedict's School, Cheltenham.

Other officers of the Society elected for the ensuing year are:

Vice-President: Mr F. C. Smailes, F.C.A.
Secretary: Mr D. P. L. Howe, A.C.A., Cooper Brothers & Co, Nelson House, Rupert Street, Bristol 1.
Treasurer: Mr W. E. Dewdney, F.C.A.

Annual Report

The annual report of the committee shows that the total membership of the Society at December 31st, last, numbered 1,387 – an increase of sixty-three over the previous year's figure.

The education sub-committee was responsible during the year, with the Bristol College of Commerce, for the first nine-month pre-service course for four-year articled clerks. The response by students to this course was most encouraging, and a further course has been arranged to commence in September.

Membership of The Bristol Area Society of Chartered Accountants rose by 112 over the year to 744. The Society held several successful meetings during the year which included a debate on auditing attended by some sixty members and one on the 1967 Companies Act attended by 105 members. Four informal lunch meetings were also held and the Society's Bridgwater, Swindon and Yeovil groups had an active year.

The Exeter and District Society of Chartered Accountants had a total membership of 328 at the year-end.

Lectures and discussions took place at Barnstaple, Exeter, Taunton and Torquay. In addition, two taxation conferences, the first in January, the second in September, were held at Exeter University.

Membership of the Cornwall and Plymouth Society of Chartered Accountants at the year-end totalled 224.

Two informal meetings held with H.M. Inspectors of Taxes at which mutual problems were discussed, proved to be very useful, and there was a lecture on the 1967 Companies Act, and a demonstration of the computer at Truro County Hall for members.

Total membership of The Gloucestershire Society of Chartered Accountants numbered 162 at December 31st.

Several meetings were held at Gloucester, Cheltenham and Stroud, and a number of joint meetings were inaugurated during the year, by invitation of the local branch of The Institute of Cost and Works Accountants, and by the local branch of The Association of Certified and Corporate Accountants.

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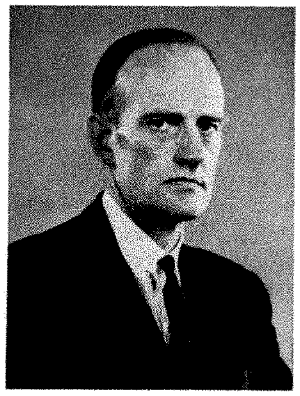
EAST ANGLIAN SOCIETY OF CHARTERED ACCOUNTANTS

New President

Mr G. E. Goodchild, F.C.A., a partner in the firm of Scrutton & Goodchild, Chartered Accountants, of Ipswich, has been elected President of the East Anglian Society of Chartered Accountants.



Educated at Mill Hill, Mr Goodchild served in the Royal Navy during the Second World War being demobilized in 1946 with the rank of sub-lieutenant. Subsequently articled to his father, he was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1952. After working in London for a short time, he returned to Ipswich and became a partner in his present firm in 1953.

An ex-Captain of Ipswich Rugby Club and Master or Joint Master of the Sproughton Foot Beagles for eight years, he now hunts with the Essex & Suffolk Foxhounds.

Other officers elected for the ensuing year are:

Vice-President: Mr H. Robinson, F.C.A.
Secretary and Treasurer: Mr P. Scarfe, F.C.A., 9 Red Lion Street, Norwich.

Annual Report

Membership of The East Anglian Society of Chartered Accountants at December 31st, 1967, numbered 555 according to the Society's annual report.

A well-supported residential seminar on auditing took place in October at Great Yarmouth, for which much of the material was provided by the Institute, and it is proposed to hold a similar residential seminar on taxation, also at Great Yarmouth, next October.

One of the main achievements of the Society's education, training and recruitment committee during the year was the preparation of a comprehensive circular on the full-time nine months' tuition courses which was recently distributed to all practising members.

Both Norwich City College and the North-east Essex Technical College at Colchester continued to provide pre-examination courses of three weeks' duration followed by regular tutorial sessions. The report states, however, that these beneficial courses did not always receive the support from the profession which they undoubtably deserved and members in practice are particularly urged to encourage their articled clerks to attend these courses.

NEW EXAMINATIONS IN DATA PROCESSING

Qualifications in financial data processing were announced last week at a Press conference in London by The Institute of Data Processing – the data processing division of The Institute of Book-keepers and Related Data Processing.

Two examinations are offered for either a diploma or a certificate, leading to membership of the Institute. The former is intended for, among others, accounting, secretarial and costing personnel, and sets out to provide for the 'line' executive an appreciation of the use to which a computer can be put as an aid to his work. The latter which is in two parts – Intermediate and Final – is intended to give a basic qualification for the practitioner in data processing.

Mr Ernest K. Gross, F.C.W.A., F.C.B.I., F.I.M.I., Chairman of the Institute, speaking at the conference which was presided over by Mr R. Gresham Cooke, C.B.E., M.A., M.P., referred to the growing need for a specialist qualification in data processing. The new examination demanded, he said, extensive practical experience of computers and it set out to provide prospective employers with a definite yardstick to go by.

One of the consultants to the Institute on data processing, Mr R. W. Moscrop, A.C.C.S., F.I.D.P., stated that whilst those programmers with a strong mathematical bias, often at degree level, were readily available for scientific computing, the availability of the right people in commercial data processing was most unsatisfactory. With the new syllabus the Institute had, he said, established a career pattern for computer personnel. Instead of the split-level categories of systems analyst and programmer, there will be only one grade of computer personnel.

Copies of the examination syllabus are available from the Institute, 139 Stoke Newington High Street, London N16.

ANNOTATED TAX CASES

Part 7 of Volume XLVI of the *Annotated Tax Cases*, edited by Mr Peter Rees, of the Inner Temple, Barrister-at-law, is now published and contains reports, with notes on the judgments, of the following cases: *Carlisle Butchers Ltd v. Minister of Labour* (Q.B.D.); *In re Gartside's Will Trusts* (H.L.); *In re Holmden's Settlement* (H.L.); *Stephenson v. Payne, Stone, Fraser & Co* (Ch.D.); *Roberts v. W.S. Electronics Ltd* (Ch.D); *Lord Advocate v. Reliant Tool Co* (H.L.); *Laing v. C.I.R.* (C.S.); *C.I.R. v. Ferguson* (C.S.).

The annual subscription is 70*s* post free and the publishers are Gee & Co (Publishers) Limited, 151 Strand, London WC2.

ECONOMIC CONDITIONS IN THE NETHERLANDS

A further booklet in the 1967–68 series dealing with economic conditions in member and associated countries of the Organization for Economic Co-operation and Development has recently been issued covering the Netherlands. Copies of the booklet are obtainable from H.M. Stationery Office, price 5*s* 6*d*.

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Established 1874

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Institute's May 1968 Final Examination Results

A Plan For Posterity

WITHIN the past twenty years there have been two major mergers among professional accountancy bodies in Britain. The first of these was in 1951 when the three independent societies of chartered accountants in Edinburgh, Glasgow and Aberdeen united to become The Institute of Chartered Accountants of Scotland.

This formidable blend of Scottish talent, as we described the event at the time, had a significance greater than the number of members – about five thousand in all – involved. By an ingenious process of adoption the new body celebrated its centenary the year after it was formed, thus demonstrating that unified strength may be obtained without sacrificing history or tradition. The amalgamation served also to tidy up the structure of the profession by reducing the number of chartered bodies in the British Isles from five to three – based geographically in England and Wales, Scotland and Ireland.

The second, and substantially larger, merger took place in 1957 when The Society of Incorporated Accountants integrated with these three chartered bodies who thereby assimilated another 11,500 members into their ranks. This further unification was welcomed as a move towards – and again we quote ourselves – organizing the profession to meet the demands being made on it by the changing and challenging times.

The pattern and purpose of these two important mergers may now be extended one stage further if the proposal, first announced last year, to merge The Association of Certified and Corporate Accountants, The Institute of Cost and Works Accountants and The Institute of Municipal Treasurers and Accountants with the three chartered bodies comes to fruition.

Members of the six interested bodies – more than eighty thousand in all – should receive by post this week-end full details of the scheme. If, by reason of vagaries of time, distance and the G.P.O., some copies are still in transit, the members thus temporarily deprived and any other of our readers who are interested, can bring themselves up to date by turning to the summary of the main features of the scheme which appear elsewhere in this issue.

The concept, in brief, is to adapt the profession to meet the demands being made on it by an increasingly commercial and competitive society by raising rather than by diminishing the already high standards of education, conduct and technical proficiency associated with it. Three further objectives are – to match training more closely to the needs of industry, commerce and the public service; to utilize more effectively the existing resources of the major accountancy bodies; and to enable these bodies to voice quickly and with authority, the ideas and ideals of the profession to the world at large.

To facilitate the last of these objectives it is suggested that the three major bodies be linked by joint committees and by reciprocity of membership and facilities, although each at this stage would retain its complete independence. It is thought that because of constitutional and other regional differences the time has not come for the complete integration of the profession in Great Britain and Ireland; but if the present proposals mature then this, in due time, surely must be the logical next and final step, whatever the difficulties to be overcome.

The most striking departures from the existing constitutions of the three Institutes are the proposals that a two-tier profession be established, and that in each tier there will be three main 'streams' of activity – practising accountants, accountants in industry and commerce, and accountants engaged in central and local government. Members of the top tier would be 'chartered accountants' with standards of training and qualification similar to those now in force.

The radical difference is that aspirants would be able to take articles (which would be renamed 'a formal training contract') with accountants in industry and in the public service at senior levels, as well as with those in practice. Chartered accountants who qualified while in industry or in the public service would not be allowed to begin to practise until they had obtained appropriate experience in the practising 'stream' of the profession.

The lower tier of membership would comprise 'licentiate accountants' who, in order to obtain this qualification (to be designated 'Lic.A.'), would need to start off with at least five ordinary level passes in the G.C.E. examination or its equivalent, show satisfactory evidence of accountancy experience over a period of five years, and take the examinations specially set for this tier. Provision would be made for licentiate accountants of the English and Irish Institutes to practise (with certain modifications) and for them to graduate to chartered accountants at a later stage. The medium of eligibility control for both chartered and (English and Irish) licentiate accountants wishing to practise would be in the form of practising certificates issued by the respective Institutes.

The proposals now under consideration embrace only the three non-chartered bodies mentioned above but the possibility of extending them to other accountancy bodies is being explored. The schemes being submitted to members of the English and Irish Institutes are identical apart from minor adjustments caused by individual national educational systems, and by constitutional and local organization.

The Scottish scheme differs from the other two in the educational field in that the Scottish Institute proposes to retain the academic year at a university for students in their second year of training. It differs from them also in certain other particulars – notably that Scottish licentiate accountants would not be allowed to practise; that the Scottish Institute would not issue practising certificates to overseas members; and that in the long-term proposals for legislation, it would seek to protect only the description of 'auditor' as compared with the English and Irish championship of both 'accountant' and 'auditor'. This is because Scottish universities confer degrees in accountancy.

We commend the scheme both for its vision and for the meticulous way in which it has been worked out and presented. The implementation of the proposals in their entirety would, in our opinion, do more to rationalize a profession almost notorious throughout its history for the multiplicity of constituent institutes, societies, associations, faculties and groups, than any other previous merger. To begin with, the concept is on a grander scale involving as it does six major bodies. Again, it recognizes officially that the shape of the profession's activities has become triangular, with two complementary sides to auditing in industrial and management accounting and local and Government service. The importance of this last facet has recently been highlighted in the Fulton report which, with uncanny anticipation, actually recommends that qualified accountants in Government departments should be allowed to have their own trainees.

Above all, the scheme has been launched with a realistic appreciation of the fact that it can only be a success if an unstinted measure of goodwill is extended to it by everyone concerned. Early shafts of criticism from chartered accountant members have been based on the assumption that their own standing would be lowered if their designations were to be shared with the members of the non-chartered participating bodies who, expert as they undoubtedly are in their own specialized areas, have not the all-round training and experience demanded of a chartered accountant. This view may well be valid within circumscribed limits of time but it is in the longer term that the full benefits of the scheme would be seen to accrue.

The scheme is, in short, a plan for posterity and whatever the outcome, it is to be hoped that the eighty thousand-plus members concerned will realize their responsibilities and pay it the compliment it fully deserves by studying the proposals carefully and impartially, attending the local meetings arranged and, in due course, exercising their right to vote.

'Materiality' in Accounts

IF nothing matters, said the cynic, then what does it matter whether anything matters or not? This negative reasoning may not be used by the auditor if, before reporting on a set of accounts, he remembers that the word 'material' occurs twelve times in Schedule 2 to the 1967 Companies Act. He has an unequivocal obligation to weigh up any departure from orthodoxy in accounting practice and to consider whether the deviation is sufficiently important to affect the accepted true and fair view which the accounts should present if his report is to be unqualified. If there is an item or circumstance of such significance then he has no option but to comment on it to the shareholders or ensure that it is otherwise brought to their notice.

The auditor's task is sometimes made much more difficult because the question of materiality cannot be judged in isolation but must be related to context and background, that is, comparatively and not absolutely. An ambiguous sales item of £10,000 might be inconsiderable in the accounts of a company with a turnover of £10 million but vital in a company with a turnover of £100,000. If the item of £10,000 related to audit fees, however, then it would become material in the accounts of the larger company.

The pros and cons of these and other factors are fully set out in a statement just issued to members of The Institute of Chartered Accountants in England and Wales and reproduced elsewhere in this issue. The Council does not seek to pontificate. Its intention is to highlight both the duties and dangers which the assessment of materiality involves. The auditor must apply these general principles to the particular situation he is called upon to judge and to decide for himself, always keeping in mind that 'trifles' may be 'tremendous' and that, on occasion, 'mighty contests rise from trivial things'.

Reporting on Profit Forecasts

AN amusing but telling phrase is often quoted in forecasting circles: 'Prediction is always difficult especially when it has to do with the future!' On the face of it, the City Code on Take-overs and Mergers presents the investigating accountants with the same sort of dilemma.

Hitherto, profit forecasts have been prepared for internal management purposes, so that auditors or reporting accountants have seldom been called upon to pass an opinion on the bases or methods of computation adopted.

Paragraph 15 of the code – which states that the calculations and the bases for profit forecasts must be examined and reported on by the auditors or consultant accountants – has finally brought matters to a head. The Institute of Chartered Accountants in England and Wales has, therefore, issued notes (reproduced elsewhere in this issue) for the guidance of auditors or consultant accountants who are confronted with this new and unsought task.

A strong and realistic line is established right at the outset: '... there is no question of their (profit forecasts) being "audited" in any sense ...', and it is important that this should be made crystal clear when the reporting accountants accept instructions to review profit forecasts. Moreover, the wording of the report should not convey the impression that they are in any way guaranteeing or otherwise accepting responsibility for the ultimate accuracy and realization of forecasts. Because of the auditors' authority and statutory position, directors, third parties or the public may be tempted to place far too much credence upon the statements made by reporting accountants.

Working within strictly defined limits, however, the reporting accountants have a positive duty to perform. They can undertake a critical and objective review of the assumptions on which profit forecasts are framed, and can verify that the forecasts have been properly computed. That being said, one then turns to the all-important limiting factors.

First, the report is addressed to the directors; it is not intended – nor is it suitable – for publication. Second, although the report may reassure the board, it in no way relieves the directors of their ultimate responsibility in so far as the profit forecasts are disclosed to and may be acted upon by outsiders. Third, reporting accountants should normally confine their review to the current accounting year and, provided a significant part of the current year has elapsed, to the following accounting year. Fourth, reporting accountants should not allow their name to be directly associated with profit forecasts in circulars. Fifth, if the reporting accountants have material reservations as to the bases, calculations or presentation of profit forecasts, their reservations should be published in the relevant circular.

Reporting accountants are earnestly advised to reach agreement with directors on all these points before accepting instructions to report on profit forecasts.

The notes conclude with a list of the main points to be considered in the review and the matters to be stated in the accountants' report under the code. It is not too much to hope that a second opinion based upon an independent, though necessarily limited review, will guard against the wild guessing that is sometimes elevated into 'profit forecasts'.

Current Affairs

Institute's Final Examination

OF the 5,594 candidates who sat for the May Final examination of The Institute of Chartered Accountants in England and Wales, 2,772 (49·5 per cent) passed and 2,822 failed.

Seven candidates (33·3 per cent) passed in Parts I and II together out of twenty-one who sat. In Part I there were 3,143 candidates, of whom 1,551 (49·3 per cent) were successful and 1,592 failed. The First Place in Order of Merit, the Robert Fletcher Prize and the Deloitte-Plender Prize for the paper on English Law I were won by Mr M. R. B. Gatenby, and Second Place in Order of Merit, the Walter Knox Scholarship and the Deloitte-Plender Prize for the paper on English Law II were won by Mr M. K. T. Cheung. Third Place in Order of Merit and the O. C. Railton Prize were awarded to Mr M. G. Korn.

In Part II of the examination there were 2,430 candidates, of whom 1,214 (50 per cent) passed and 1,216 failed. First Place in Order of Merit, the W. B. Peat Medal and Prize, the Howitt Prize and the Deloitte-Plender Prize for the paper on Advanced Accounting III were won by Mr S. T. Brough. Second Place in Order of Merit, the Charles M. Strachan Prize and the Frederick Whinney Prize were awarded to Mr G. E. Morris. Third Place in Order of Merit and the Tom Walton Prize were awarded to Mr D. P. Atkinson.

A full list of successful candidates and a summary of the complete results are published as a supplement to this issue.

Share Valuation for Estate Duty

DISPUTES with the Estate Duty Office about share valuation are many and tedious and a case decided in the High Court on July 17th (*Re Lynall, deceased*) raises matters of great interest.

Mrs Nellie Lynall died on May 21st, 1962, leaving 28 per cent of the issued shares of Linread Ltd, a flourishing family company. There were 67,980 ordinary shares owned by her, and the Revenue at first valued them at £4 1*s* 9*d* each, but later increased this valuation to £5 10*s*. The executors contended for a valuation between £2 and £2 15*s* a share. In July 1963, there was a public issue of 27½ per cent of Linreads' capital at £7 16*s* a share and it was twenty-two times oversubscribed. However, the Revenue conceded that knowledge of events after the death must be disregarded. The question was as to the probability, at the date of death in 1962, of the company going public. What evidence was admissible about this? There were in existence certain documents at the date of death which recorded investigations of alternative ways of raising money for estate duty. However, these documents were private. Nevertheless, the Revenue contended that they should be taken into account.

In the light of the evidence of one of the directors, the Court held that these documents should be disregarded. He had said that if asked by a potential purchaser of shares about the shares' prospects he would not have disclosed the documents. On that footing, the Court valued the shares at £3 10*s*. Had the documents been admissible, the Court would have increased the value to £4 10*s*, still well below the Revenue's valuation. Both sides were given leave to appeal.

It may be perhaps doubted that the Revenue will in fact appeal. Many cases have now arisen where they are claiming capital gains tax on disposals of shares which were held on April 6th, 1965. The Revenue have been concerned to argue for a low value on that date and indeed argue on the opposite sense from their argument in *Re Lynall*. As Parliament happily has fixed the same rules of valuation for both taxes, the Revenue will have to be consistent. The new decision is a little strange in that, assuming all the world as potential purchasers, why should the people in the know be excluded?

Pensions and Retirement

IT is often said that the years of retirement are the period to which men most look forward to but, in these days of continuous inflation, the attractions of remaining in employment or one's professional work as long as possible are becoming increasingly clear. Nevertheless, retirement must come and it behoves all prudent persons to ensure that their pension rights are, from the outset, well arranged. This is especially the case for professional men and directors of close companies where the law is both complex, yet offers scope for a variety of schemes.

There is no such thing as a standard pension suited to the various needs of each individual, but, as some readers will doubtless have found when seeking advice on these matters, the wood is almost indiscernible for the trees.

The problem is even more difficult for businessmen such as engineers or successful businessmen who have devoted much energy to building up their businesses and rather less to their own financial affairs, and a recently published booklet offers some valuable advice and simple facts to members of the Engineering Industries Association. Under the title *Your Retirement* (price 10*s* net), are summarized in clear language the various types of pension scheme and benefits available.

It is, however, a mistake to believe that all retirement problems are financial; they are much more varied and in some cases more fundamental. In this respect, a new publication from the Institute of Directors entitled *Solving the Problems of Retirement* (price 21*s*) offers advice and suggestions from authors as varied as doctors and trade union officials as to how one should prepare for retirement and how to ensure that it will be happy.

Charitable Rent-collecting

SECTION 11 (1) (*a*) of the Rating and Valuation Act 1961 provided for mandatory relief from rates in favour of property

> 'occupied by, or by trustees for, a charity and wholly . . . used for charitable purposes'

The Estates Governors of Alleyn's College of God's Gift at Dulwich, a well-known charity, claimed the relief on

(1) the estate offices from which the Dulwich Estate (now largely residential and including 400 acres of woodlands) was managed;

(2) workshops for about twenty-five workmen who did the maintenance work on the estate;

(3) a cottage for the bailiff or foreman;

(4) the woodkeeper's cottage.

These properties were occupied by the Charity; they were not let, the occupation being representational. The Southwark Corporation resisted the claim on the ground that none of these properties were 'wholly used for charitable purposes' within section 11 (1) (*a*). In the High Court the charity's appeal was allowed and on July 16th, the Court of Appeal confirmed the relief.

The Master of the Rolls said (according to *The Times* of July 17th) that the charity consisted of the estate governors who managed the property, and the college governors who ran the schools. The estate governors managed the estates for the purpose of providing money for education. In doing so they carried out a charitable purpose. The premises in question were used as ancillary to that purpose. His lordship added that no claim was made for the toll booth, where some £10,000 a year was collected in road tolls. This was because it was a separate and independent business. But the four properties specified were being used to carry out a purpose of the charity as established 350 years ago when Edward Alleyn made over the estate to trustees for charitable purposes.

Share Quotations

DESPITE the capital gains tax, the attractions to the owner of floating a successful private company on to the public remain considerable, whether it be for purposes of meeting estate duty problems or merely realizing an investment based upon a lifetime's work. Only a little over 1 per cent of the 402,800 registered companies enumerated in a Board of Trade survey in 1965 then had a Stock Exchange quotation, although it has been estimated that the profits of these quoted companies exceed the total profits of all the remaining registered companies.

There are a number of requirements which a company must satisfy before it can become public. It must have reached a reasonable size which, in the London market, means a minimum value of £¼ million although smaller companies may be able to get a quotation on a provincial market. Furthermore, a minimum proportion of the issued capital must be available to the public. For example, with a placing at least 35 per cent of the quoted equity capital and 30 per cent of the fixed stocks should be made available to outside shareholders.

These and other equally important facts and considerations are contained in a new publication from The Association of Certified and Corporate Accountants entitled *Quotation for your Shares*.[1] Apart from the various criteria, not to mention the statutory requirements, which need to be satisfied by the company, the directors have to consider the method best suited to finding a market for the shares. The Association's booklet notes that the costs of public issues and offers for sale are approximately the same; the cost of a placing is usually considerably less, while the cost of an introduction is least of all. Since the costs of going public do not increase with the size of the issue, the percentage cost of small issues, even where the placing method is used, is quite high.

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[1] Available from the offices of the Association at 22 Bedford Square, London WC1. Price 10*s*.

Guidance is also give to the accountant in the preparation of his report where the issuing house requests the accountant to undertake an investigation, as well as the statutory report required by the Companies Act and the Stock Exchange regulations. The price at which the issue is made will depend on the profit record and prospects of the company although, as the booklet points out, the current price obtainable may be considerably influenced by the prevailing market conditions, not to mention the timing of the issue. The financial position and net tangible assets are a secondary consideration.

This is My Life

by An Industrious Accountant

LAST autumn we up-graded our credit controller in view of the increasing importance of his duties. He was shrewd and courteous, had a flair for conciliating the more difficult characters, the velvet glove always covering his iron hand, and he seemed marked as a coming executive.

Recently, however, he's tended to be despondent. He's grumbled several times about the dirty looks – to use his own phrase – that customers give him. Whereas formerly, as chief ledger clerk, he was treated with casual friendliness by people seeking information, nowadays they avoided him almost like a pariah. Curt nods, he said gloomily, were the best he could expect.

I sympathized with him sincerely, having suffered the same snubs in my time. Unpopularity is an occupational hazard with credit controllers. The present generation of shoppers, unlike their parents, look for credit as their right. There is a national reluctance to pay bills promptly, as well as an instinctive resentment against those who press for payment. Bargain he never so affably, the scarcely-known lady to whom he refuses £400 credit for her Persian lamb coat will dislike him for decades.

And there's more to it than that,' complained our C.C. Apparently the deputy-chairman, chatting with our wealthiest shareholder, Lady M., had called him over peremptorily. 'See what you can do for her ladyship in the way of discount,' the director had said meaningfully, before leaving the two of them together to examine that lady's statement of account.

The statement spoke for itself. It was due and overdue, most of the items being net in any event. Lady M. had nevertheless sought first 10, then 5 per cent discount on some incomprehensible grounds of illness, wrong delivery, error, and so on. The C.C. in return had been charming but adamant. Regretfully he could do nothing, he said; no discount, positively.

The reward for this championing of the company's interest had been that Lady M. had since snubbed him before other customers, the deputy-chairman had been picking on him savagely for minor misdeeds, and everything seemed to have gone wrong in the job.

'Twas ever thus, I reassured him. Remember, for example, *Under Two Flags*, by Ouida, published in 1867. It tells the tale of Lord Royallie's son, the Hon. Bertie of the 1st Life Guards – languid darling of London society – with 'hair of the softest, silkiest chestnut and a very beautifully-shaped mouth'.

Victorian society had wept for years over the sacrifice of his career to protect Lady Guinevere's worthless name, over his flight to join the Chasseurs d'Afrique, and over little Cigarette, the *vivandière*, who died to save him. But amid the gallery of portraits, aristocrats and Arabs, countesses and colonels, the only unforgivable villain had been the money-lender, Baroni, whose crime had been that he claimed what was due to him. Money-lenders and tradesmen. . . .

The C.C. wasn't listening. Desert battles and broken hearts meant nothing to him; his mind was fixed on the jeopardizing of his own job. 'What am I to do?' he asked. 'If I give her discount it'll be a precedent and I'll get into other trouble; if I don't, then the boss'll have it in for me afterwards I'm in a real jam now.'

Well, he was entitled to have his headache healed. His answer, I told him, was quite simple. He had only to place the disputed statement quietly before the deputy-chairman, inquire how much he would authorize as deductible – and then ask him to initial the percentage. That initial would not only keep the C.C. in the clear; it would also place the responsibility firmly where it belonged.

Somehow I couldn't feel that my subordinate's worry was really justified. He'd never yet met a really dangerous customer. After all, Cigarette threatened to pistol the trader who drove too hard a bargain with her soldier.

The Future of the Profession

Summary of a Scheme for the Development of the Accountancy Profession in Great Britain and Ireland

This is a summary of what may be termed the general definitive scheme. There are certain small variations – of which the principal ones are referred to in the leading article 'A Plan for Posterity' in this issue – as the scheme applies to the Scottish and Irish Institutes.

THIS statement summarizes the main features of a scheme for the development of the accountancy profession in Great Britain and Ireland. The scheme is the result of joint discussions between the six major accountancy bodies which are:

The Institute of Chartered Accountants in England and Wales;

The Institute of Chartered Accountants of Scotland;

The Institute of Chartered Accountants in Ireland;

The Association of Certified and Corporate Accountants;

The Institute of Cost and Works Accountants;

The Institute of Municipal Treasurers and Accountants.

2. There are other accountancy bodies in Great Britain but, for the reasons given in paragraph 47, no specific proposals about them are submitted at this stage. For convenience in this scheme, the term 'the profession' is used mainly to refer to the members of the participating bodies listed above.

BACKGROUND

3. The scheme is bold and imaginative. Its aim is to adapt the profession to meet the needs of a changing world whilst continuing to lay emphasis on discipline and professional standards. It proposes to do this by bringing the members of all the participating bodies under similar professional disciplines and by raising the standards of general education and technical proficiency throughout the profession. This would be a major step towards dispelling the confusion and misunderstandings which are caused in the public mind by a multiplicity of professional designations, and to securing that the profession in Great Britain and Ireland is in a position to speak with a united voice on matters of professional, national and international importance.

4. The proposals have developed from a recognition of great changes which are taking place in the scope and emphasis of the work of professional accountants and from considering, in the light of those changes, the problems which will confront the profession and the part it will be called on to play in the national and international scene in the years to come. The scheme is essentially forward-looking. Its proposals recognize the necessity of taking action now if future needs are to be met and future problems are to be minimized.

5. Among the most far-reaching of the changes affecting the profession is the development of the constructive use of accounting as an aid to current management and decision-taking. The function of accounting for stewardship – the recording, measurement and reporting of past events – retains and will always retain its great importance; moreover, the scheme specifically reserves performance of the audit function to those who have had appropriate experience in practitioners' offices. But the increased use of accounting for management purposes and the related developments in accounting techniques and in methods of processing information have given the professional accountant a much greater part to play in the current activities of the commercial and financial world. This applies whether the professional accountant is a practitioner serving his client, is the employee of a practitioner, is a director or employee of a business undertaking or is engaged in the public service.

6. In these conditions, it is not surprising that such a large and growing proportion of accountants who have been trained in practising offices are now serving in commercial and public service appointments. Nor is it surprising that professional accountants who have been trained in industry and commerce are now beginning to find scope for useful service in the practitioner field, both as consultants in their own right and as members of a general practitioner team.

7. These developments create strong pressures on the existing bodies to widen their fields of professional training and to extend the syllabuses for their professional examinations. At the same time, the tuition for these examinations will inevitably pass more and more into the hands of the national educational system whose facilities cannot be made exclusive to any one professional body.

8. It follows that qualified accountants of the future will increasingly have shared a common background of tuition for professional examinations covering largely common ground. It is to be expected that they will increasingly pursue their profession in a variety of fields, irrespective of that in which they received their original training.

9. The full significance of these trends may not yet be generally appreciated. They provide some of the impelling reasons for seeking integration of the profession and the establishment, by that means, of uniformly high standards of education, training and professional discipline, and for rejecting the alternative of a divided profession in which there are different professional bodies for the different kinds of professional work in which their members were initially trained.

10. Other considerations apply to the separate status of

the English, Scottish and Irish Institutes. Clearly there are arguments for their integration in a single professional body for the whole of Great Britain and Ireland. On the other hand, there are important constitutional and other regional differences in their circumstances which it would be difficult for a proposal of that kind to cater for. On balance, it has been concluded that proposals for the combination of these three Institutes in a single professional body would be at least premature. In present conditions the best course is to recommend integration with the other professional bodies in three parallel schemes, one for England and Wales, one for Scotland, and one for Ireland, while at the same time creating formal ties between these three Institutes by the establishment of joint committees and by arrangements for reciprocity of membership.

11. The proposals need to be considered not only on their separate merits but in their relationship to one another. The scheme as a whole needs to be considered against the background of change to which reference has been made and from the standpoint of its impact on the profession in the future.

Procedure and time-table

12. The detailed schemes are being issued now to nearly 80,000 members of the participating bodies, well in advance of meetings which will be held in the districts later in the year[1]. The views expressed at these meetings will be taken fully into account by the Councils of the six bodies before any schemes are submitted to members for a vote on their acceptability in principle at special meetings to be convened for that purpose early in 1969. If it is decided at such special meetings that the schemes should be proceeded with, the proposals will then be embodied in resolutions for the requisite alterations in the Royal Charters and other constitutional documents so that these, in turn, can be put to the vote at further special meetings. The proposals could thus not become effective until the latter part of 1970 at the earliest.

13. Copies of the detailed schemes may be obtained free of charge from the headquarters of any of the participating bodies.

Aim

14. The aim of the scheme is to improve the standard of all professional accountancy services. The steps which are necessary to attain this aim are:

(*a*) to achieve higher and uniform standards of training;

(*b*) to match training more closely to needs by extending the system of formalized training under contract to industry, commerce and the public service;

(*c*) to make more effective use of the resources of the present major accountancy bodies;

(*d*) to speak more quickly and effectively as a profession.

THE SCHEME

Main features

15. The main features of the scheme are:

(*a*) integration of the members of the participating bodies to form three enlarged Institutes, one based on England and Wales, one on Scotland and one on Ireland – linked by joint committees with reciprocity of membership and facilities;

(*b*) the establishment of a two-tier profession;

(*c*) broader and more advanced standards of education, training and professional attainment for chartered accountant students and the introduction of practical training under contractual arrangements into industry, commerce and the public service;

(*d*) the establishment of entry, examination and training requirements appropriate to the new licentiate accountant grade of membership;

(*e*) the regulation, in the public interest, of practice rights to ensure that only those members who are fully qualified to do so may perform audit and analogous functions;

(*f*) transitional provisions to preserve the existing rights and expectations of members and students of the participating bodies.

General proposals

Structure, categories of membership and reciprocal facilities

16. The main proposals concerning the structure of the profession, categories of membership and reciprocal facilities for members of the three enlarged Institutes are:

(*a*) that the members of the participating bodies will be integrated under the description 'Chartered Accountants' so as to form three enlarged Institutes, one in England and Wales, one in Scotland and one in Ireland, associated with one another through joint committees;

(*b*) that provision will be made for each enlarged Institute to consist of two categories of qualified members – namely 'Chartered Accountants' and 'Licentiate Accountants' – which between them will cover the whole field of the profession's work. The description 'Chartered Accountant' will distinguish those equipped to render the more advanced services from those whose professional training, experience and competence is less extensive;

(*c*) that chartered accountant members of any of the three enlarged Institutes will be eligible to apply for admission to either or both of the other Institutes in Great Britain and Ireland; and

(*d*) that chartered accountant members who do not wish to avail themselves of the facilities for dual or triple membership will, nevertheless, be entitled to participate in the activities of any local organization for chartered accountants in Great Britain and Ireland.

Different categories of student

17. An essential consequence of the foregoing proposals is that there will be two different categories of student:

(*a*) Chartered accountant students:
who, in recognition of their more advanced educational attainments, will have greater opportunities to participate in Institute affairs and, accordingly, will be admitted to membership as student members; and

(*b*) Licentiate accountant students:
who will be registered with their Institute but not be members of it.

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[1] Details of these meetings are given elsewhere in this issue.

Entry standards, education and training for Chartered Accountant students

Educational entry standards

18. There are differences in the minimum educational entry standards now required of candidates for membership of the participating bodies. The minimum entry requirements for future chartered accountant students will be established at a uniform level approximating to university entry standard (broadly five passes in the General Certificate of Education examination or its equivalent with two of the passes being at the 'advanced' level).

Professional education

19. All future chartered accountant students will be required to attend courses of full-time study of accountancy and related subjects. A good background of theoretical knowledge will enable them to progress more quickly and to make a better contribution to work in the office.

The three 'streams'

20. The profession of accountancy is conducted not only by members in practice. It includes members who are concerned primarily with general management as well as those who are engaged in the preparation, presentation and interpretation of the accounts of limited companies, public corporations, partnerships, sole traders and those who are employed by central Government or local authorities. For the purposes of this scheme, members are regarded as being engaged in one of the three main 'streams' in the profession, namely:

(*a*) '*The practising stream*'
comprising members engaged in public practice and those employed by practitioners;

(*b*) '*The industrial stream*'
comprising members engaged in industry, commerce and finance – including those employed by public corporations, services, utilities and all other public enterprises of a trading and industrial nature;

(*c*) '*The public service stream*'
comprising members employed either directly in the administration of central or local Government, or in public undertakings of a non-trading or non-industrial nature.

21. The scheme proposes that there will therefore be three alternative routes available to those who intend to pursue a career as chartered accountants.

Extension of examination syllabus

22. With different routes available for those who wish to qualify as chartered accountants, the examination syllabus must cover in sufficient depth, by way of alternative papers, the full range of accountancy subjects.

Approved practical training

23. The Councils of the participating bodies are convinced that service under formal contractual arrangements is the best means of acquiring practical training and a proper professional outlook because it imposes important and necessary obligations and duties on the parties to the agreement. It will, however, be described in future as service under a 'training contract' which better describes the relationship which should exist between a principal and his student.

24. All chartered accountant students, whether in practising offices, industry, commerce or the public service will be bound by a training contract with their principal who will be a member of their Institute. The training contract will be in a form approved by and registered with the Institute and will also have associated with it the parent or guardian if a student is under twenty one years of age and the company or organization of the principal when he is engaged in industry, commerce or the public service; the latter provision is necessary to ensure that the principal's employer will give the principal and the student the necessary facilities for the student to follow the required programme of training.

Power to inquire into the adequacy of practical training

25. The Councils of the enlarged Institutes will require to be assured that the principal (and the firm in which he is the sole practitioner or a partner or the company or organization in which he works, as the case may be) is able to provide adequate practical training and proper facilities for the student.

Eligibility to become a principal

26. The principal in the case of a chartered accountant student who is being trained in a practising office, will be a member in practice, whether as sole practitioner or as a partner in his firm.

27. The principal in the case of a chartered accountant student who is being trained in industry, commerce or the public service will be a member who is holding a sufficiently senior position to be able to control and supervise the student's work.

Required period of practical training

28. The period of practical training (in addition to attendance at a full-time course of academic study) which will be required in the future will be approximately three years for graduates and approximately four years for the two 'A' level school leaver.

Licentiate accountants

The need to introduce a second tier

29. The complexity of the work required of accountants, whether in practice or in industry, commerce or the public service, has greatly increased and has contributed to the demand for higher educational standards. In consequence there is now a need to introduce a junior qualification which would provide a career as professional accountants for those who, for a variety of reasons, have not succeeded in attaining the educational entry standard which will be required of all chartered accountants in the future.

30. The creation of a second tier will make it possible for many school leavers who do not attain the higher educational entry standard to be set for all chartered accountant students to obtain a professional accountancy qualification as junior members of the enlarged Institutes.

31. The lower tier qualification will be open to those with at least five 'ordinary' level passes in the General Certificate of Education examination or its equivalent. They will be required to obtain approved experience and to pass appropriate examinations. A means of progression to the

chartered accountant qualification will be provided for those whose talents develop later.

32. A new category of membership will therefore be introduced. Its members will be described as 'Licentiate Accountants' and will use the designatory letters 'Lic.A.'.

Professional education and examinations

33. The examination syllabus for students for the licentiate accountant qualification will be designed to provide them with a sound general knowledge of accounting principles so that they are fitted to take their place equally in a practising office, in industry, commerce or the public service.

Required period of practical experience

34. Licentiate accountant students will be required to obtain five years' approved practical experience (in addition to passing the appropriate professional examinations) before becoming eligible for admission as licentiate accountants. This experience may be obtained as the result of employment in practising offices, industry, commerce or the public service.

35. This highlights the significant difference in the treatment of these two categories of student. The licentiate accountant student is required to obtain 'experience' which he does in the normal course of his work as an employee. The chartered accountant student is required to undergo a period of 'training' under a formal training contract.

36. Licentiate accountant members of the English and Irish Institutes of Chartered Accountants will be permitted to engage in practice, though it is not expected that many will wish to do so. When in practice, they will not, however, be empowered to sign audit or analogous reports which the public interest requires should be done only by members who have the highest standards of training and experience.

Public practice

Functions reserved to persons of appropriate training and experience

37. The Companies Acts of 1948 to 1967 and other statutes require that the audits which they prescribe should be carried out only by persons with specified professional qualifications. A number of non-statutory organizations, for example, The Stock Exchange, London, have a similar requirement for the performance of audit and analogous functions in compliance with their own regulations.

38. The Councils of the participating bodies believe that the expression of an independent opinion on financial statements, whether or not covered by statute, should be reserved to chartered accountants with thirty months' appropriate experience in the office of a practitioner who is himself fully qualified to perform this function. They take this view partly because the capacity to perform this function is not dependent solely upon academic qualification and partly because the importance of this function lies in the reliance which may be placed on it by third parties. The latter imposes on the practising accountant a wider duty than that of service to his client.

39. Those members who qualify as chartered accountants in industry, commerce or the public service must, therefore, spend thirty months in a practising office obtaining their appropriate experience before they become entitled to perform what are described in the scheme as 'reserved functions'.

40. These provisions will not, of course, preclude a chartered accountant who has obtained his training other than in a practising office from engaging in practice as, for example, a cost or management consultant, nor will they preclude a licentiate accountant (other than a licentiate accountant member of the Scottish Institute who will have no practice rights) from engaging in practice for the purpose of providing services concerned with the preparation of accounts.

Eligibility to engage in public practice

41. Another condition which the Councils believe to be important is that no member will in future be entitled to engage in practice until at least two years after the date of his qualification. Moreover, a licentiate accountant member of the English or Irish Institutes will be required to spend at least thirty months in the office of a practising chartered accountant, either during training or subsequently, before he is eligible to engage in practice and hold himself out to the public as being capable of undertaking the professional work which he will be permitted to perform.

Practising certificates

42. Control will therefore have to be exercised over members wishing to engage in practice by issuing practising certificates.

43. There will in future be two types of practising certificate:

(*a*) one which will authorize chartered accountants with thirty months' appropriate experience to engage in public practice with the right to carry out the reserved functions; and

(*b*) one which will authorize both chartered accountants without this experience and licentiate accountant members of the English and Irish Institutes to enter into public practice provided they do not carry out the reserved functions.

44. Symbols in the respective list of members will indicate whether a member is in practice and, if so, the nature of his practising certificate.

Constitutional and local organizational matters

45. Certain changes will be necessary in the constitution and local organization of the three Chartered Institutes to take account of the integration of members of the other bodies and to ensure that the interests of the enlarged membership are properly represented. These changes are set out in detail in the documents which are being issued to members of the participating bodies.

Possible extension of the scheme to other accountancy bodies

46. In paragraph 2 of this statement reference is made to other accountancy bodies. A working party was established to collect information about these bodies and to hold informal, exploratory discussions with the representatives of some of them to see if it might be possible to arrive at an acceptable basis for absorbing their members into the appropriate tier of the enlarged Institutes.

47. Good progress has been made in discussions with

three bodies but in the time available it has only been possible to reach provisional agreement between the working party and representatives of these bodies on the entry criteria which might be applied to their members. The three bodies concerned are The Association of International Accountants (1,450 members), The British Association of Accountants and Auditors (950 members) and The Faculty of Auditors (480 members).

48. It is hoped to conclude the discussions with these three bodies in time to issue, before the autumn meetings in local district or branch society areas, a note which will set out the proposed entry criteria and will give estimates of the numbers which would thereby be absorbed into each tier.

49. If, but only if, the present scheme for the integration of the six participating bodies receives a substantial measure of support from members attending the district or branch society meetings, they will then be asked to express their views about extending it to embrace the three other bodies mentioned in paragraph 47 above.

Transitional Provisions

50. A scheme of this nature cannot be implemented without adequate provision to protect the position of many members and students of the participating bodies who have existing rights or expectations.

51. These provisions will include, *inter alia*, such matters as:

(*a*) arrangements for students in the 'pipe-line';

(*b*) the protection of existing practice rights (which would otherwise be removed by the introduction of the 'thirty months' rule'); and

(*c*) measures which are necessary to fulfil commitments, either moral or explicit, to overseas countries which some of the participating bodies have undertaken.

Long-range Planning

A New Role for the Accountant

by JOHN ARGENTI, M.A.

OVER the past few decades two trends of great interest to accountants in industry have been taking place. The first is that the accountant himself has become a much more active member of the management team – in the old days his role, in the main, was to see that the books were properly kept but to keep out of management affairs. Now he spends much of his time pointing out the implications of the figures to managers, advising them how their proposals might affect revenue, costs, profits and tax, and helping them to monitor progress by means of a well-designed costing system. This more active role is emphasized in the title 'management accountant' – he has become an indispensable member of the management team.

The second trend is the way that the management team itself has grown – not only in mere numbers but in the variety of specialists who must now be counted among the team members. First came the work study officer, then amongst many others, the O. & M. specialist, the O.R. scientist, the systems analyst, the computer programmer. To be frank, it is rather surprising that these two trends have not yet joined up anywhere, for some of these newcomers undertake tasks that have much in common with accountancy: certainly O. & M. and systems analysis are studies that seem to be well within the accountant's area of interest.

When one remembers the principle that the smaller the team the more efficient it usually is, and when one thinks of the recent more active role of the accountant, it is surprising that the team is not kept down in size by the simple expedient of the accountant representing some of these related specialists on the team. But it often happens that the O. & M. man or the systems analyst appear as equals round the conference table with the accountant.

Indeed, in some companies whole new systems have been designed by analysts after little more than a polite discussion with the accountant. In others, these specialists report, not to the accountant, but to the head of operations research or the computer manager. One would have thought that some of these new disciplines were really subsections of accountancy rather than separate new professions and that their work would be supervised by the accountant.

But now a new specialist is joining the management team, namely, the long-range corporate planner. His circle of interest also overlaps that of the accountant – or to be more precise, several of his circles of interest overlap the accountant's; for the corporate planner is a generalist, as opposed to a specialist, and he has several circles of interest. It might be useful to identify where these areas of overlap occur so that accountants may see what part they can play in developing this new discipline. There are, in fact, four particular areas in which the accountant has a vital part to play in the development of a corporate plan; each of these is detailed below.

Setting the target

One thing on which every corporate planner agrees is that one must decide what the objectives of the company are before attempting to draw up a corporate plan. There the agreement ends, however, for precisely what these objectives should be is hotly disputed. Probably most would agree that financial objectives are the most important – but there is even debate over this. Others insist that it is imprudent for any company to try to do two things at once – i.e. that there should only be one objective, for if more than one is set and if – as is very probable – they become incompatible, then the company will be trying to face in two directions at once.

Without doubt corporate planners badly need the advice of accountants in deciding precisely what financial objectives should be set. Nor is this at all easy, for few of the traditional concepts are sufficiently precise to be used as targets: 'to maximize profits' is one well-worn favourite, so is return on capital employed. Neither will do[1]. A target set in terms of growth is generally felt to be more appropriate – but growth of what? Earnings or profit or assets or equity valuation or dividends? And what rate of growth?

And since long-range planners usually talk in terms of several years ahead one cannot help feeling that no method of setting a long-term target will be adequate unless it makes use of the principles of D.C.F. All this should be right up the accountant's street.

Of all the measures that are used today only one appears to fit the bill and that is return on equity shares. If one treats the shareholder as a man investing in a project, then the D.C.F. method can be used in just the same way as it is used to evaluate any project. Thus, imagine a man who paid £100 to his stockbroker in 1963 for some shares in a company from which he received a dividend, after tax, of £5 that year and then £8 in 1964 followed by £20 in 1965 when he sold part of his holding for £12. Then in 1966 he sells the rest for £104. Now in spite of this fairly complicated history it is very easy to calculate what this man's return on capital was – it was about 15 per cent – using D.C.F.

It is possible to estimate in this way what return any company has given its shareholders over the past few years and to use this record as a basis for setting a target rate of return for the next few years. In fact, the average shareholder has obtained a return of about 9–10 per cent over the past several decades and a target return of about 10 per cent would therefore be a sensible one for the average company to choose for the future.

Who better to make this sort of calculation for his company than the accountant? And having recommended a target in these terms, who better than the accountant to take the next step and calculate what profits are needed to make this return-on-equity target possible? For, of course, if the company is to achieve its target to shareholders, it must make sufficient profit to make this possible as well as retaining enough of its earnings to keep the company alive and vigorous.

Gap analysis

Having decided what profits the company has to try to earn over the following few years, the corporate planner now has something to plan for. The whole point of a plan is that it is a carefully thought out sequence of actions designed to achieve a given end – the problem usually is to know exactly what the end is! This we now know, however; it is to achieve a certain profit each year so that the company can meet its target return to shareholders.

Corporate planners believe, however, that in order to develop a strategy by which these targets can be achieved, it is also necessary to know what would happen to the profits of their company if nothing was done to improve them. They usually, therefore, make a profit forecast as well as setting a profit target. A 'target' is what one wants to happen, a 'forecast' is what one expects will happen, and a 'plan' is what one intends to do to bring the forecast up to the target. Thus, imagine that the profit targets for a company were:

1968	*1969*	*1970*	*1971*	*1972*
£105,000	£110,000	£117,000	£125,000	£135,000

Imagine also that the forecast showed that profits might move like this if no new plans were developed:

1968	*1969*	*1970*	*1971*	*1972*
£106,000	£110,000	£110,000	£108,000	£97,000

Then it is clear that this company must do something over and above what it already intends doing in order that this extra action may improve their profits by the following amounts:

1968	*1969*	*1970*	*1971*	*1972*
—	—	£7,000	£17,000	£38,000

In this way the corporate planner estimates what is the extent of the task that the company has set itself and can glean some knowledge as to the nature of the strategy that the company needs. These are just the sort of calculations that an accountant is well equipped to make since they are very similar to those made when preparing the company's annual budget. This is the second major area of corporate planning in which the accountant's skills can be invaluable.

Evaluating alternative strategies

Neither the accountant nor the corporate planner can play a very large part in developing strategies – this must rest firmly in the hands of the company's senior

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[1] See *Corporate Planning – a practical guide,* by John Argenti (Allen & Unwin). Also *Regina v. Return on Capital,* the June issue of *Management Today.*

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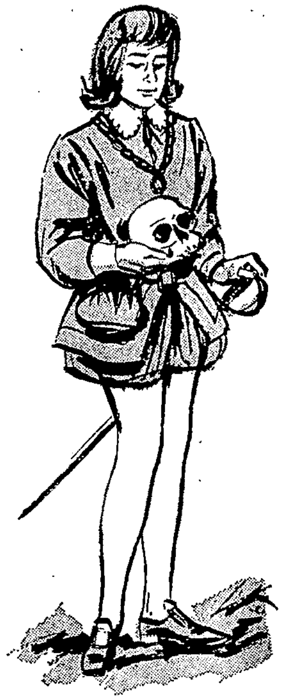

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executives. The corporate planner does, however, indicate what these strategies must achieve – i.e. they must be powerful enough to close the profit gaps – and he also provides the executives with a great deal of background information about the company and its environment, but the responsibility for devising a suitable strategy is an executive one.

However, it is part of the planner's job to evaluate any strategy they propose, to check that it is likely to close the gaps or to show which of several alternative strategies proposed is the one most likely to do this. Here again, this is just the accountant's line of country, especially as one of the key problems is whether the company has the financial resources to carry out any given strategy.

One of the most difficult problems is to calculate the cash flows to which a company can look forward over the next few years, and in particular to estimate how much of this it will have available for reinvestment. To make these calculations one needs a model of the company showing both financial and cost information – a cross between a balance sheet and a management accounting costing system, in which the inter-relationship of dividend policy, gearing, inflation, capital grants, taxation, costs and revenues are all shown so that the effect of each project proposed by the strategists can be demonstrated.

The arithmetic of such a model is easy – it is the design of the model that requires the special financial and costing knowledge that the accountant possesses. The more complex the model, the more tedious does the arithmetic become, however, and it is often desirable to make the calculations on a computer. But once it is designed, this type of company model is extremely useful for studying the effects of making changes in gearing, for example, or of the effects of inflation on the company's profits over many years into the future.

Monitoring progress

Once a strategy has been chosen and it is put into action, it is vital to monitor the progress of the company towards its long-term profit targets. This is the fourth major area where the corporate planner needs the skills of the accountant – skills he has developed by designing and operating his costing systems.

However, there are two important distinctions between the traditional costing system and the system required to monitor progress towards targets. The first is that many costing systems are designed to tell managers whether their performance for the past month measured up to that set for them in the budget. The corporate planner is, however, much less concerned with what went wrong last month than with what might go wrong next year. Thus, instead of monitoring the recent past he needs to be able to monitor the future – which sounds as if it is impossible!

What can be done, though, is to take the events and trends of recent months and attempt to isolate which of these might continue into the future and which are purely ephemeral. Those that are considered likely to affect the future are then taken account of and the profit forecasts for the next few years are appropriately modified. As soon as any trend or event occurs that is estimated seriously to affect the ability of the current strategic plan to close the gaps, the board should be alerted and it may be necessary for them to call for a new plan. Thus a forward-looking costing system has to be designed.

The second way in which a corporate planner's monitoring system must differ from the accountant's costing system is that it must contain a great deal of non-cost information. For example, it may have been part of the company's strategic plan to improve the quality of its main product so as to enable it to enter a new sector of the market: clearly, therefore, quality is a key factor in the success of the strategy and it should be monitored. So, of course, should the company's share of the existing market and of the sector it wishes to enter. Or again, the strategy may have required the systematic introduction of productivity bargaining and in this case output per man, wages per man, wages per unit should be included in the monitoring system.

Non-cost information

These, then, are the four areas of contact between a corporate planner and the accountant. The planner's circles touch those of many other specialists also: he needs to borrow the economist's skills in evaluating the economic factors in the firm's environment, the technologist's in spotting trends in science that may affect the company's future, the marketing man's in seeking new outlets and products, and a dozen others. But with no other specialist do the corporate planner's circles overlap as far and as often as with the accountant.

This thought leads on to another which it is the purpose of this article to put forward – namely, that accountants are better placed than any other member of the management team to be their company's corporate planner. To explain why this might be so it is necessary to discuss the role of the corporate planner rather more fully.

One of the inevitable consequences of the growth in the size and variety of the management team – a trend mentioned above – is that the whole management effort has become fragmented. It is now exceedingly difficult for a board to ensure that every department, every section of the company, are all pulling in the same direction and facing the same way – a task made no easier by the fact that the board itself is similarly fragmented. That is to say, the board itself usually consists of half a dozen or so directors each of whom has a clearly defined executive job to perform, with the result that the sales director fights for the sales department, the production director is rooting for production, and so on.

It is not being implied that boards are all at odds within themselves and that fighting breaks out between the directors regularly every first Tuesday in the month – nothing so absurd is intended. What is meant is something more subtle, that is, that each departmental director sees the company from his department's point of view and not from the company point of view. Only the chairman and the managing director can do this.

Specialist 'bias'

What often happens as a result of this specialist bias – which is present at every level of every specialist department, incidentally, not just at director level – is that each department acts in its own interest in the belief that this must be in the interests of the company as a whole. Thus the sales director is convinced of the need to strengthen the sales force, the research director believes they should introduce a new product having exciting scientific properties, the production director is certain that a new, fully-automated factory should be built at Plymouth, and the purchasing director wants to place large long-term contracts with some major suppliers.

Now the point is this: all these ideas may be right, all may be wrong – but who is there in the company capable of evaluating them from the company point of view? The answer seems to be that only two men are able to do this – the chairman and the managing director. Only they can see the company as a whole. But both these men are already exceedingly busy for there are many other tasks that, again, only they can undertake.

Furthermore, when proposals of this type are put forward they demand a very careful analysis of the company's position for years ahead; for example, before deciding to place a long-term contract for a component, one needs to be sure that this particular item will still form part of the product to be sold in several years' time. Again, to introduce a new product needs a very careful examination of the potential market for it for many years ahead. All major proposals of a magnitude to demand the attention of the board, also demand a very careful evaluation – an evaluation that must go far beyond the proposal itself into such wider studies as to how far the proposal makes use of the company's strengths, what threats are avoided by it, what opportunities it exploits, whether it makes use of scarce resources, whether it is the best way of closing the profit gaps, and so on.

Complex decisions

Companies are complex organisms acting in, and reacting with, a complex environment; major changes cannot be made without a study of their possible effects on this complicated system. The costs of an unforeseen snag, or of a wasted opportunity are too high. And yet the only men capable of taking a company-wide view of any proposed strategy are the chairman and managing director – two of the busiest men in the company who cannot possibly be expected to make extensive inquiries into the company's probable position within its environment over the following few years.

This, moreover, highlights a curious point – these two men are usually the only senior executives in the company who have no staff department at all. The other directors often have a large group of specialist advisers, administrators, record keepers and assistants. The chairman and managing director normally do not – and yet their task of determining the company's objectives and selecting a strategic plan are vastly complex.

Arguments such as these lead inevitably to the idea of giving these men their own staff department to make these wide inquiries and to assist them to choose suitable objectives and strategies. Because they are not connected with any one department, the staff officers to the chairman and managing director can take the same overall company view as they do. This is the fundamental purpose and *raison d'être* of the corporate planner – to help the chief executive officer of the company to choose objectives and strategies for the long-term future.

Such a man has to be broad in outlook and well in tune with trends in politics, science, economics and, of course, he must be blest with entrepreneurial flair.

Important role for accountants

Such qualities are not often found in men who have pursued one specialist path for many years – and yet too young a man may lack the practical experience of business that is so necessary for successful corporate planning. Nor are such specialists likely to be able to take the company view upon which so much emphasis is placed.

There is, in fact, only one specialist who can take the company view because that is the view he is used to taking and that, of course, is the accountant. He is the only man, other than the chief executive, who habitually thinks in terms of *company* profits as opposed to individual revenues or costs relating to one product or one department. He is the only man who has no departmental axe to grind. He is the only man who can see inside the mechanism by which profits are made and watch it working – observe the effect of dividend policy, of rising overheads, of falling margins, of changes in output, in costs, in sales, in wage rates, in working capital. He is the only man capable of setting up a monitoring system and supervising it. He must be far ahead of any other specialists in his qualifications for the job of corporate planner.

The old image of the accountant is changing rapidly – no longer is he considered to be a narrow-minded old fuddy-duddy, spending hours each day balancing two sets of figures to the nearest penny. The tools he uses are changing, too. To an outsider, at least, the profession is moving rapidly towards those skills and attitudes that are highly appropriate to those required in long-range corporate planning.

The Accountant's Role in Take-over Bids – II

by W. G. MEDLAM, F.C.A.

Making the bid and receiving it

AS a long recital in fluent prose would cause this paper to be extended to the length of a textbook, this section is written in note form. Before an offer is made, or when an offer is received, it is advisable to read the Board of Trade rules on offer practices, or if a public company quoted on a recognized Stock Exchange is concerned, the Stock Exchange memorandum on the subject, and the City code on take-overs.

Where applicable, reference should also be made to Exchange Control Regulations, the monopolies legislation, permission for capital issues (if any) and other particular requirements.

These notes include the requirements of the Board of Trade and the Stock Exchange, but even if neither are involved as may be the case in certain mergers between non-quoted or private companies, it is wise, if accusations of misfeasance are to be avoided (see paragraph 23), to follow the best available precedents and practice.

The formal titles of the documents referred to in the opening paragraph above are as noted below and the sections referring to mergers and their documentation are noted beside the title.

A. Prevention of Fraud (Investments) Act 1958	Sections 13 and 14
B. Licensed Dealers (Conduct of Business) Rules 1960 (S.I. 1960 No. 1216)	Rules 1–5, 17 and 18, Schedules 1, 2 and 3
C. Memorandum of Guidance and Requirements of the Federation of Stock Exchanges of Great Britain and Ireland (1966). Admission of Securities to Quotation	Rules in sections headed 'Acquisitions and Realizations' Rules 1–15, 'General Undertaking' Rules 2–4, 6 and 7, 14–16, 'Guidance on Communication of Announcements' Rules 1–11
D. Issuing Houses Association The City Code on Take-overs and Mergers.	All

27. *Notes on mergers and acquisitions.* The following notes refer to acquisitions for cash, of shares or of the undertaking, but whether the consideration is shares or other value, the principles do not differ greatly. (The section references in the notes are those of the 1948 Companies Act.)

A.1 Acquisitions for cash

(*a*) Offer for all shares at a stated price, assent by a stated date (can be extended by offerer).

(*b*) Generally conditional upon acceptance of 90 per cent in nominal value, but could be less if the offerer so decides.

(*c*) Option of offerer to declare unconditional.

(*d*) Offer usually accompanied by a transfer or blank form of acceptance and an order stating where acceptance price is to be sent.

(*e*) Under rule 17 of the City code, confirmation is necessary by an independent party that resources are available for satisfaction of the full offer.

A.2 Position of offerer

(*a*) Only requires board approval, but necessary act in good faith and for benefit of shareholders of offerer company.

(*b*) If finance to be raised for the cash offer, may have to be authorized by shareholders of offerer company, see articles.

(*c*) Usually in case of (*b*) enough for an ordinary resolution at an extraordinary meeting.

(*d*) Necessary to watch rights of classes of shareholders.

(*e*) If finance by lending money out of recipient company or offerer company, watch section 54 (advancing money for purchase of own shares). See below B.

A.3 Position of recipient

(*a*) If conditions (*b*) and (*c*) below satisfied, offerer may compulsorily acquire the remaining 10 per cent, subject only to the Court ruling otherwise.

(*b*) Offer must be accepted within four months by 90 per cent in value of shareholders of shares for which offer made – section 209 (1).

(*c*) Where offerer company already has 10 per cent in value of the shares under offer, the accepting shareholders must also constitute 75 per cent in number of the shares under offer – proviso to section 209 (1).

(*d*) If 90 per cent acquired, the 10 per cent have the right to request offerer to take the remaining 10 per cent at the offer price.

(*e*) Where some of the 10 per cent are not available (widows, trusts, dead men), offerer may execute transfer and pay in money to a separate bank account.

(*f*) Where bid is for one class of shares, e.g. voting equity, holders of other classes of shares (e.g. non-voting equity) cannot force a compulsory acquisition by offerer.

The second part of a paper presented at the Oxford Summer Course of The Institute of Chartered Accountants in England and Wales on July 12th.

A.4 Non-acceptance up to conditional number

(*a*) Offerer used to be able to declare bid unconditional and keep what it had acquired (e.g. I.C.I. and Courtaulds); now under Rule 20 of the City code an offer should not be declared unconditional unless the offerer has obtained 50 per cent of the voting rights attributable to equity capital.

(*b*) In case of (*a*), offerer unable to acquire shares of non-assenting shareholders compulsorily.

(*c*) In case of (*a*), offerer may alternatively allow bid to lapse and return moneys, transfers, etc., at his expense.

A.5 The Court's position

(*a*) Approval not required for the offer or for the compulsory acquisition of the remaining 10 per cent.

(*b*) Court may be approached by a non-assenting shareholder to forbid the compulsory acquisition of the dissenting minority. (Section 209.)

A.6 Directors of recipient

(*a*) If requested to retire from board, any payments to them require approval of recipient company, *in advance* of offerer company's shareholders – sections 192 (1), 193 and 194. (See C. below.)

(*b*) Have a duty to put shareholders into possession of all facts necessary for informed judgment. Directors of the offerer company are joined in this duty by Rule 14 of the City code.

B. *Section 54 position – Ban on company acquiring its own shares*

B.1 (*a*) The ban exists because the Court will safeguard the rights of creditors to look to the full subscribed share capital for payment of debts to them. By buying or providing finance for its own shares a company reduces that permanent fund of security to creditors.

(*b*) Nor may a company, for similar reasons, buy the shares of its parent company (section 27.) This reduces the available capital cushion for creditors.

(*c*) The ban also exists to stop non-controlling shareholders (less than 51 per cent) acquiring control.

B.2 'Directly or indirectly'

(*a*) Directly dealt with in 1 above.

(*b*) Indirectly is also dealt with in section 54 and relates to a ban on giving directly or indirectly 'any financial assistance'.

(*c*) In (*b*) above is included any loan, guarantee, provision of security, 'or otherwise'.

(*d*) Exceptions to (*b*) – bank, finance company, trustees or an employee (up to working director) scheme, of loan to an employee (not director) for purchase of his company's shares.

(*e*) Fine is only £100 – some companies do it because of this derisory fine.

(*f*) Where damage is suffered (e.g. creditors in a liquidation), claim against directors for misfeasance – section 54 (1). Also includes persons who had knowledge of the facts – e.g. auditors or financial advisers.

(*g*) Confusion and conflict in case law – best be on the safe side as section 54 is very widely drawn, 'directly or indirectly' – 'in connection with', 'assistance before or after', 'to be made'. Generally, it could be said that if a bank or lender provides 'bridging loan' section 54 might be contravened if it is repaid by out of funds provided by the recipient company.

(*h*) Lease-back finance obtained and lent back might contravene section 54.

(*i*) 'Directly or indirectly' would prevent the charging of the assets of the recipient company, as security for money borrowed by its new parent company.

B.3 Reasons for ban in section 54

(*a*) Protection of creditors.

(*b*) Dilution of assets by paying away cash or crediting liabilities, actual or contingent.

(*c*) Inhibition of take-over bids on a shoestring, if the offerer does not have spare cash, the use of the company's cash or assets endangers the whole group.

B.4 Differences of former type of leaseback, successful men always used an *unconnected* company to give necessary security for loans.

B.5 Loans to trustees for executive (working) directors for purchase of shares, watch section 190 (1), common law on misfeasance, and the omission of the words 'bona fide' from proviso to section 54 (1).

B.6 Generally, watch that the interests of creditors and minority shareholders are in no way prejudiced.

C. *Directors of recipient*

C.1 (*a*) Usual pattern is that directors of recipient must be persuaded (by adequacy of bid, timing, etc.) to support the bid to shareholders of the recipient company.

(*b*) In practice, recipient shareholders look for guidance to their board.

(*c*) In practice, if feeling against acceptance is strong, approval by recipient board means that defensive tactics may have to be organized by shareholders against their board.

(*d*) The recipient board must not be unduly influenced by any personal advantage which may come to them out of the total consideration; section 193 (1) requires disclosure.

(*e*) Section 193 (*e*) notes four classes of offer:

- (i) offer to general body of shareholders,
- (ii) offer made on behalf of a company with a view to recipient becoming a subsidiary,
- (iii) offer made by an individual with a view to obtaining at least one-third of voting power (*de facto* control),

(iv) any other offer conditional on acceptance to a given extent.

(*f*) The section requires the payments to directors to be approved *before* any transfers are made.

(*g*) Approval not only by 'offer' shareholders but all others too, of the same class – section 193 (3) (*b*). The effect is to include at the meeting, any shares already held by the offerer.

(*h*) Rules of Board of Trade state that an offer may NOT be conditional upon the recipient approving a retirement payment – Schedule 1, Part II, paragraph 1 (3).

(*i*) Note the terms of the retirement payments:

(i) if made by the offerer with reimbursement terms, the selling shareholders bear it;

(ii) if made by the recipient, all shareholders of the class of share under offer bear it.

(*j*) The payment is for loss of office, a director cannot receive a payment and then continue in office.

(*k*) Common law difficulties of accountability of such a payment, fiduciary position, liable to account to general body of shareholders for side-payments including a greater price for their own shares.

(*l*) In practice it is best to assume that from the moment an offer is notified the directors of the offerer company will act in their full fiduciary capacity to their shareholders.

(*m*) A private deal with the directors at a price higher than the general offer does not fall within section 193, but they should then bear their fiduciary positions in mind as in effect they are selling their offices as directors.

In general, directors, and their families and trusts, who contemplate transferring control should not do so unless the offerer undertakes to extend a comparable offer to the remaining shareholders.

(*n*) References in sections 191, 192 and 193 to payments made to any director of a company by way of compensation for loss of office or as consideration for, or in connection with, his retirement from office, do not include any bona fide payment by way of damages for breach of contract or by way of pension in respect of past services (section 193.)

D. *Purchase of control for cash from existing controllers* (see also paragraph 27 C.1 (*m*) above)

D.1 (*a*) Usually direct negotiation, then appoint offerer's nominees to the recipient board by ordinary resolution of general meeting. Usually not necessary as new directors appointed before old ones retire.

(*b*) Decision to offer is usually made by board resolution of offerer company.

(*c*) Decision to sell vests in the owners of shares. Court has no rights unless 90 per cent assent.

(*d*) Remaining recipient shareholders have no right to compel offerer company to acquire their shares, unless 90 per cent acquired.

(*e*) If payments are to be made under (*a*) to retiring board, approval required in general meeting; read section 191 in conjunction with section 194 (3).

(*f*) If recipient becomes a subsidiary of offerer, payments must be approved in advance by shareholders accepting *and* other shareholders of same class – section 193 (1) (*b*) and section 194.

E. *Purchase for cash of assets or undertaking*

E.1 Position of offerer

(*a*) Board action only.

(*b*) Objects clause of memorandum and articles must allow purchase, and compatibility of trades.

(*c*) Relevance of Finance Act 1965, section 61, carry over of losses.

(*d*) Independent opinion necessary that sources are available.

E.2 Position of recipient

(*a*) Unless articles (or debenture trust deed) require otherwise, directors may act by board resolution.

(*b*) But note certain recent cases where sale of assets or part of undertaking require ratification of general meeting.

(*c*) Recipient company need not pass proceeds to shareholders, it can reinvest if articles so allow.

(*d*) Court has no rights except if board is in breach of its fiduciary duties, e.g. oppression of the minority, section 210.

E.3 In anticipation of, or during the processes of a bid, the directors of the recipient should not, without the consent of shareholders in general meeting, issue shares, dispose of assets or agree to acquire or sell assets of a material amount and so alter the course of bid. Sales and purchases of assets in the normal course of business are quite legitimate. (See I.2 below.)

F. *Offer of cash by offerer for a block of new shares*

F.1 (*a*) Normally a '(1968) Ltd' operation with many possible variations, i.e. incorporate a new company with the same name but the date in it, transfer the concern to the new company, exchange names, and leave behind in the old company a fund of cash. In this way the new company gets a structure which it wants and need not take assets which it does not require and liabilities or a capital structure which it does not want.

(*b*) New shares of recipient company issued to offerer and new directors appointed or a formal agreement that board will act in accordance with instruction of offerer – section 154, company now a subsidiary.

F.2 Position of offerer

(*a*) Board resolution only.

F.3 Position of recipient

(*a*) Directors can accept application for shares and allot, but watch articles for necessity to offer new shares first to existing shareholders.

- (*b*) If insufficient authorized capital, ordinary resolution of shareholders in extraordinary general meeting necessary.
- (*c*) Approval of Court not required, unless fiduciary breach – see (*e*) below.
- (*d*) Remaining shareholders cannot compel offerer to acquire their existing shares.
- (*e*) Fiduciary breach under (*c*) if
  - (i) inadequate price,
  - (ii) acceptance of irregular payments,
  - (iii) purpose is misdirected – e.g. shares issued NOT to raise more necessary capital but to change the control,
  - (iv) but not if done to forge a more desirable link,
  - (iii) and (iv) most difficult to differentiate.
- (*f*) Any payments to directors under this method also require shareholders' approval.

F.4 Take-overs by stealth are now frustrated by section 4 of the Companies Act 1967 whereby a single beneficial ownership of 10 per cent of a company's shares has to be notified to the company.

Generally, bids for less than 100 per cent of the shares not already owned by the offerer are undesirable, but the circumstances of a particular case may merit leaving behind a minority.

G. *Information to shareholders*

G.1 Adequacy of information

- (*a*) In case of a public company every member of public is a potential shareholder; in principle inform public as well as shareholder.
- (*b*) When a bid, or intention to bid, is notified by an offerer and is a bona fide bid, shareholders of the recipient should be notified by Press notice. See G.2 (*a*) and (*f*) below and form an opinion.

G.2 Preliminary information

- (*a*) Ensure no leaks after first approach.
- (*b*) Usual and best to disclose immediately after recipient board is approached, but see (*e*), (*f*) and (*g*) below.
- (*c*) Disclose terms of offer.
- (*d*) Desirable for general compliance with (even in cases of private companies):
  - (i) Issuing Houses Association, commonly rereferred to as City code.
  - (ii) Stock Exchange requirements.
  - (iii) Board of Trade rules.
- (*e*) An offerer should give the recipient board sufficient time to decide its proper attitude to the bid before making a unilateral announcement. Joint statements are desirable provided that agreement thereon does not lead to undue delay.
- (*f*) Beware of early disclosure, might cause rise, and negotiations later collapse – bid might be bogus – then section 13 (1) Prevention of Fraud (Investments) Act 1958 applies. (See G.5 (*a*) below.)
- (*g*) Beware of tardy disclosure, information may leak and cause share prices to move, unsettlement among shareholders.

G.3 Act on basis that after the preliminary announcement, buyers act as speculators and the devil take them; but the genuine investor shareholder should be protected against selling at a lower price than the bid price.

G.4 Types of circular and announcement.

- (*a*) An offer by or on behalf of the offerer, possibly with arguments for acceptance of offer.
- (*b*) Circular by recipient, detailing the offer, possibly supporting or opposing the offer.
- (*c*) Legal requirements of announcement, see G.5 below.
- (*d*) Generally statements should be made as if they were a prospectus within the meaning of the Companies Acts 1948 and 1967. Furthermore, a positive statement must be made to the effect that directors of the recipient accept, individually and collectively, responsibility for facts stated and that none have been omitted. Rule 13 of the City code clearly implies the necessity for the auditor or a reporting accountant to express an opinion on the accounting facts stated.
- (*e*) The responsibility is on the directors of both companies to compile profit forecasts and asset valuations with the greatest possible care. If auditors or reporting accountants are expected, as a matter of future practice, to express opinions on these profit forecasts and asset valuations, and in the author's opinion they should unless their prestige is to suffer, the forecasts and asset valuations must be corroborated, probed and checked. At this point, just as much as at the annual audit the watchdog for the shareholders must be given an opportunity to bark.

G.5 Legal and other requirements governing announcements and procedures.

- (*a*) Section 13 (1), Frauds Act 1958 – offence to make a false statement, promise or forecast.
- (*b*) Section 14 (1), circularize through an authorized channel (see G.7 below) or with prior approval of Board of Trade.
- (*c*) The Licensed Dealers (Conduct of Business) Rules 1960 (No. 1216), Schedules I, II and III.
- (*d*) Requirements of Share and Loan Department, Stock Exchange.
- (*e*) City code (see G.2 (*d*) (i) above).
- (*f*) Sections 191 to 194, Companies Act 1948 – Directors.
- (*g*) Sections 206 to 209, Companies Act 1948 – Reconstruction.
- (*h*) Section 287, Companies Act 1948 – Power of liquidator to accept shares.
- (*i*) Section 113, Companies Act 1948 – Inspection of register of members.

G.6 G.5 (*a*) includes withholding of material facts, and statements knowingly or 'recklessly' false. Effectively it requires full and true information and extends the detailed requirements.

G.7 G.5 (*b*) stops unauthorized persons issuing a circular except

- (*a*) a prospectus in Companies Act 1948 form,
- (*b*) a circular from a person other than
  - (i) a stockbroker,
  - (ii) a licensed or exempt dealer (e.g. a merchant bank),
  - (iii) a company to its *own* shareholders,
  - (iv) a company to shareholders of its *own* subsidiaries,
- (*c*) documents approved by Board of Trade.

G.8 In regard to G.7 (*b*) (iii) above, a recipient company cannot distribute an offer to its shareholders as it is not acting as a principal but only as an agent of the offerer in so distributing. Board of Trade approval is required, or the offer made by an authorized dealer.

G.9 Use of G.7 (*b*) (iv), usually to acquire the remaining minority.

G.10 In practice, dealers comply with Board of Trade rules, City code and Stock Exchange rules.

H. *Circular of recipient directors recommending or rejecting offer*

H.1 (*a*) Within section 13 of Frauds Act 1958, if it rejects, as it is an attempt to dissuade persons from acquisitions and disposals.

- (*b*) If quoted company, submit to Share and Loan Department of Stock Exchange before sending.
- (*c*) Watch for possible exaggerated forecasts and statements where forecasts and statements have not had an opinion expressed on them by the auditors or reporting accountants.
- (*d*) Where possible, back up information by audited figures or figures subject to an opinion of the auditor or reporting accountant.
- (*e*) Directors disclose extent of their shareholding.
- (*f*) And any inducements, loss of office payment, etc.

H.2 Where directors of recipient company recommend a proposed rejection, circularize at cost to the bidder if he will agree to it.

H.3 Circularization by recipient board.

- (*a*) If recommended, it falls within Frauds Act 1958. (H.1 (*a*) above.)
- (*b*) Recipient board not bound to comment on the bid but usually do.
- (*c*) Where offer to minorities of subsidiaries by the parent company, subsidiary board should make very full comments and obtain outside confirmation of the fairness of the offer from auditors or consultant accountants.
- (*d*) Usual to include an independent valuation of the shares.
- (*e*) Sometimes recipient board bind themselves NOT to accept a subsequent bid or a competing one. Clearly undesirable from *their* point of view.
- (*f*) Matters in paragraphs A.3, A.6, C, E.2, E.3, F.3, G and H above should be borne in mind.

H.4 Section 209, Companies Act 1948 – power to acquire 10 per cent dissenting minority, do not mention in circular.

H.5 If offer made by licensed dealer etc. circular must state who is the principal and whether he has ascertained whether the offerer can honour his bid. Also whether that principal will keep the shares or re-sell them to another.

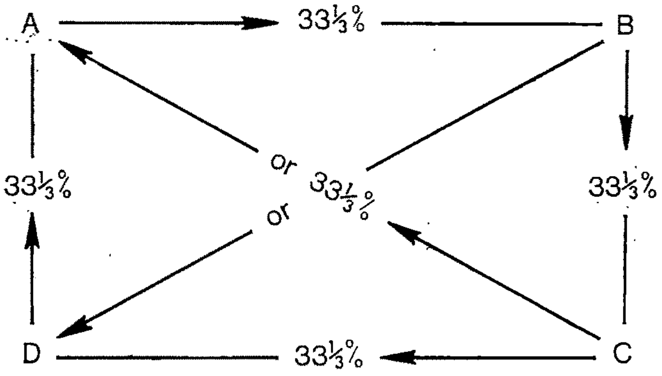
H.6 Extent of offerer's present shareholding must be disclosed. (See C.1 (*m*) above.)

H.7 Intention with regard to employees of recipient and future conduct of business to be disclosed.

I. *Defensive measures of an unwilling recipient board*

I.1 Defensive measures well before the likelihood of a bid.

- (*a*) Non-voting or restricted voting shares.
- (*b*) Interlocking or circular shareholding (not allowed to purchase shares of parent company, but two or more may hold large but not controlling block of each other).



(33⅓ per cent chosen due to section 193 (*c*)).

- (*c*) Holding of a substantial block by a protective or friendly holder (e.g. certain companies resisting anti-trust laws and cartels) giving both a trade advantage, also pension fund of a company, EDITH, or a really big company takes one-third to keep out a bidder for control etc.
- (*d*) Pyramiding. X holds 51 per cent of X Ltd, Y holds 51 per cent of Y Ltd. From XY Ltd and X and Y enter into joint voting agreement. Sell off 49 per cent of XY Ltd's shares to the public.
- (*e*) Voting agreements between shareholders.
- (*f*) Long-service or management agreements, provided no *mala fides.*
- (*g*) Restriction of voting to members of a stated nationality.

I.2 Defensive measure on receipt of bid. (See E.3 above.)

- (*a*) Put assets outside control of shareholders, e.g. Savoy Hotel bid and Berkeley Hotel.
- (*b*) Increased dividends and capitalization of reserves.

(c) Disclosure of favourable information.

(d) Reconstruction of capital – increase financial interest of a class of shares because it carries high voting rights, therefore bid high, e.g. increase preference dividend rate from 6 per cent to 9 per cent in exchange for yielding voting rights.

(e) National interest sentiment – e.g. British Aluminium Ltd.

J. *Costs of opposition to a bid*

J.1 The identity of the holders of fully paid shares is not normally a matter of concern to the company.

J.2 The powers of a company are confined to acts reasonably incidental to the attainments of its objects.

J.3 Therefore costs of resistance could be incurred

(a) Where the bidder is believed to be intending to use his controlling, but not total, shareholding to raid the assets.

(b) Where bidder believed to be going to act contrary to the interests of the company.

(c) Where opposition, of itself, created incidental benefits.

(d) To show that the position is not as bad as it looks.

(*To be concluded.*)

Interpretation of 'Material' in Relation to Accounts

The Council of The Institute of Chartered Accountants in England and Wales has issued the following statement for the guidance of members on the meaning to be attached to the expression 'material' as used in the Companies Acts 1948 to 1967, particularly with reference to provisions relating to accounts and also as used generally in the Council's statements.

Introduction

THE use of the word 'material' in relation to accounting matters is intended to give scope to a reasonably wide interpretation according to the variety of circumstances which can arise. It is not possible or desirable, therefore, to give a precise definition of such an expression. By literal definition the adjective 'material' can vary in meaning from 'significant' to 'essential'. In an accounting sense, however, a matter is material if its non-disclosure, misstatement or omission would be likely to distort the view given by the accounts or other statement under consideration.

Statutory accounting requirements

2. The word 'material' occurs in Schedule 2 to the Companies Act of 1967 in the following places:

Balance sheet

(a) Paragraphs 4, 6 and 7 – The classification and disclosure of reserves, provisions, liabilities and assets and aggregation of and movements in reserves and provisions.

(b) Paragraph 11 (5) and (6) – The aggregate amount or estimated amount of contingent liabilities and contracted or authorized capital expenditure.

(c) Paragraph 11(8B) – Stock-in-trade or work in progress.

(d) Paragraph 11 (9) – Foreign exchange rates of conversion.

Profit and loss account

(e) Paragraph 12 (1) (e) and (1) (f) – Transfers to and from reserves and provisions.

(f) Paragraph 12 (1) (gb) – Amounts charged in respect of hire of plant and machinery.

(g) Paragraph 14 (6) – The effect of:

  (i) transactions of a sort not usually undertaken by the company or circumstances of an exceptional or non-recurrent nature;

  (ii) any change in the basis of accounting.

Group accounts

(h) Paragraph 15 (4) (d) – Qualifications in the reports of auditors of subsidiaries.

[*Note:* The adjective 'material' is also used elsewhere in the Companies Acts, e.g. Companies Act 1948, section 328 (1) (f) (Winding-up: Offences – omission from statement of affairs) and section 417 (4) (c) (Prospectuses: matters of non-compliance or contravention), Companies Act 1967 section 16 (1) (c), and (f) (Additional matters to be dealt with in directors' report).]

General accounting requirements

3. The principle of materiality is and has always been fundamental to the whole process of accountancy and is not therefore confined to the statutory requirements recorded in the preceding paragraph. The whole process of preparing accounts consists of the aggregation, classification and presentation of all the transactions in such a way as to give a true and fair view of the results for a period and of the position at a specified date. Each of these processes involves the application of the principle of materiality. Questions of

materiality arise in simple receipts and payments accounts or detailed profit and loss accounts as they do in any other kind of accounts.

Interpretation

4. The interpretation of what is 'material' is a matter for the exercise of professional judgement based on experience and the requirement to give a true and fair view. Some general considerations are set out below but their application will depend upon the context in which a matter falls to be judged.

Application

5. The question of materiality can arise in various circumstances, including whether or not:

(*a*) an item should be disclosed:
  (i) by description in an omnibus item;
  (ii) separately;
  (iii) as an important reservation or a matter of deliberate emphasis in presentation (e.g. profit of the year before deducting special loss);
(*b*) an error or oversight needs correction;
(*c*) a method of computation, basis or formula properly allows for relevant factors.

6. The application of the term 'material' to any item will include consideration of:

(*a*) the amount itself, in relation to:
  (i) the overall view of the accounts;
  (ii) the total of which it forms or should form part;
  (iii) associated items (whether in the profit and loss account or in the balance sheet);
  (iv) the corresponding amount in previous years;
(*b*) the description, including questions of emphasis;
(*c*) the presentation and context; and
(*d*) any statutory requirements for disclosure.

7. Materiality can only be considered in relative terms. In a small business £100 may be material whereas £1 million may not be material in classifying the expenditure of a very large undertaking, especially as too much elaboration could obscure the true and fair view. Those responsible for preparing and auditing accounts have to decide which, out of the many facts available to them, are the ones that have a real bearing on the true and fair view which the accounts must give. In some circumstances a difference of about 10 per cent might be acceptable but in other circumstances a difference as low as 3 per cent might be too much. While percentage comparisons can, properly used, constitute useful broad guides, it must be kept in mind that they are no more than rough rules of thumb, and should not be applied indiscriminately without regard to particular circumstances.

8. An item may be material in either a general or a particular context. The general context refers to the true and fair view given by the statement as a whole. The particular context relates to the total of which an item forms or should form part and any directly associated items. If an item is not material in the general context, the degree of latitude acceptable in the particular context may depend upon its nature. There is an important distinction between cases where the amount at issue is arrived at on the basis of assumption and exercise of judgement and those where it is capable of precise and objective determination. On the one hand there are items such as depreciation where some measure of arbitrary assessment may be inherent in determining the amount to be written off in any one year. A margin of error which is high in relation to the item itself might be acceptable, if it is acceptable when viewed in the context of the profit and of the associated balance sheet item. On the other hand, items such as directors' emoluments, audit fees and investment income may have a particular interest or importance to shareholders, so that an error which might be trivial in the general context, and indeed may not be large in relation to the item itself, might nevertheless be considered material. It is relevant to observe that these items are usually capable of precise measurement, so that any departure from the exact figure would call for some justification. Indeed, in the case of directors' emoluments, the directors' fiduciary relationship inhibits any latitude in this respect.

Miscellaneous factors

9. (*a*) *Degree of approximation.* The degree of estimation or approximation which is unavoidably inherent in arriving at the amount of an item may be a factor in deciding on materiality. Examples include contingency provisions, stock and work in progress, and taxation provisions.

(*b*) *Losses or low profits.* The use of the profit figure as a point of comparison tends to be vitiated when the profits are abnormally low or where there is a loss; when judging the materiality of individual items in the profit and loss account in such cases the more normal dimensions of the business have to be considered.

(*c*) *Critical points.* The view given by accounts may sometimes be affected by the trend of profit, or turnover, and of various expense items. An inaccuracy which might not otherwise be judged to be material could have the effect of reversing a trend, or turning a profit into a loss, or creating or eliminating the margin of solvency in a balance sheet. When an item affects such a critical point in accounts, then its materiality has to be viewed in that narrower context.

(*d*) *Disproportionate significance.* An item of small amount may nevertheless be of material significance in the context of a company's particular circumstances, especially if the context would lead the reader to expect the item to be of substantial amount. In general the statute calls for specific disclosure of the type of item to which such circumstances are likely to apply, e.g. income from investments.

(*e*) *Offset and aggregation.* It frequently happens that two items, which might each be material taken separately, will be of opposite effect. Care should be taken before offsetting such items. For example, a profit arising as a result of a change in the basis of accounting should not be offset against a non-recurring loss. It may also be necessary, where there are a large number of small items, for them to be aggregated to ascertain if they are material in total.

Finance and Commerce

N. Greening

AS in a number of other instances, the need to comply with the Companies Act 1967 has been used by the board of N. Greening & Sons Ltd to reshape the general presentation of the company's report and accounts. Mr C. G. Fraser, the chairman, comments 'Wherever possible we have tried to simplify the accounts but it is inevitable that the new form should be longer.'

Looking through the report one finds the list of directors, registrars, bankers and so on inside the front cover, with the notice of meeting on the opposite page. The next two pages are occupied by the directors' report and the following two by group financial statistics for ten years. The report of the auditors stands in splendid isolation on page 6, with Mr Fraser's statement on the following three pages.

The profit and loss account comes next, with notes on the opposite page, followed by group and parent balance sheets with comparisons to a single narrative and two pages of notes. Two pages of illustrations complete a report of modest but clear presentation.

The group financial statistics, however, fall short of what is currently required, being merely a repetition of profit and loss account and balance sheet items. Profits are not equated either to turnover or capital employed.

Late in the order

Page ten is a shade late in the reading order to get to the profit and loss account which in the original is printed in international A4 size. Group turnover could well have headed the profit and loss account rather than appearing at the top of the notes on the opposite page.

The single narrative, columnar-style balance sheets are well presented and the shaded background to the comparative figures, used throughout the accounts – including the notes – helps reading. A relatively simple balance sheet leads to the ready use of the two accounts to one narrative form.

Commenting on particular balance sheet items, Mr

N GREENING & SONS LIMITED

Consolidated Profit and Loss Account

Year ended 31st March 1968

	1968 £	1967 £
Group Trading Profit (*Note 2*)	855,140	824,612
Income from Investments, etc. (*Note 3*)	34,248	35,248
	889,388	859,860
Taxation (*Note 4*)	368,394	348,986
Group Profit after Taxation (of which £462,252 (£457,678) is dealt with in the Holding Company).	520,994	510,874
Dividends (*Note 5*)	310,250	310,250
Retained in the Group	£210,744	£200,624
Retained in Subsidiaries	58,742	53,196
Retained in Holding Company	152,002	147,428
	£210,744	£200,624

Notes on the Consolidated Profit and Loss Account

	1968 £	1967 £
1 GROUP TURNOVER for the year after eliminating inter trading sales within the Group	5,936,000	5,857,000
Goods exported during the year from the United Kingdom	878,000	736,000
2 GROUP TRADING PROFIT has been arrived at after charging:		
(a) DIRECTORS' EMOLUMENTS		
Remuneration as Executives	28,435	26,544
Fees	2,437	2,933
Contributions to Pension Schemes	9,397	9,985
	£40,269	£39,462
Detailed particulars:		
Chairman's Emoluments	£12,514	£12,638
Other Directors' Emoluments:	Number	Number
Not exceeding £2,500	2	3
£2,501—£5,000	1	–
£5,000—£7,500	2	2
	£	£
(b) DEPRECIATION on Fixed Assets	155,091	158,432
No provision for depreciation has been made on Freehold Land		
(c) AUDITORS' REMUNERATION (including expenses)	3,543	3,493
3 INCOME FROM INVESTMENTS ETC		
Quoted Investments	3,768	2,875
Unquoted Investments	1,982	1,200
Short Term Deposits and Tax Reserve Certificates	27,614	28,975
Miscellaneous Income	884	2,198
	£34,248	£35,248
4 TAXATION		
On Profits for the year:		
UK Corporation Tax at 42½% (40%)	363,177	344,318
Overseas Taxation	4,971	7,178
	368,148	351,496
Adjustments for previous years	Dr. 246	Cr. 2,510
	£368,394	£348,986
Pre-acquisition losses of a subsidiary utilised during the year amounted to £38,910. Unabsorbed losses to be carried forward against future profits amount to £322,500		
5 DIVIDENDS		
Dividends paid or proposed:		
5% Cumulative Preference Shares	5,000	5,000
Ordinary Shares		
Interim 2% (2%)—Paid	55,500	55,500
Final 9% (9%)—Proposed	249,750	249,750
	£310,250	£310,250

N GREENING & SONS LIMITED

Balance Sheets

31st March 1968

	Group 1968 £	Group 1967 £	N Greening & Sons Ltd 1968 £	N Greening & Sons Ltd 1967 £
ISSUED SHARE CAPITAL (*Note 1*)	2,875,000	2,875,000	2,875,000	2,875,000
RESERVES (*Note 2*)	2,432,218	2,088,501	1,670,123	1,518,121
TOTAL CAPITAL EMPLOYED	£5,307,218	£4,963,501	£4,545,123	£4,393,121
EMPLOYMENT OF CAPITAL				
CURRENT ASSETS				
Stock and Work in Progress (*Note 4*)	1,528,702	1,528,696	—	—
Debtors	1,575,134	1,383,418	631	—
Quoted Investments (*Note 3*)	92,001	92,376	92,001	92,376
Amount owing by Subsidiary Companies	—	—	713,037	624,558
Tax Reserve Certificates	125,000	—	—	—
Cash at Bank, in Hand and on Short Term Deposit	368,130	588,931	21,851	95,157
	£3,688,967	£3,593,421	£827,520	£812,091
Deduct:				
CURRENT LIABILITIES AND PROVISIONS				
Creditors and Accrued Charges	535,240	680,554	521	132,725
Corporation Tax payable 1st January 1969	363,200	344,300	97	204
Current Taxation	21,457	7,827	982	982
Dividends	252,250	252,250	252,250	252,250
	£1,172,147	£1,284,931	£253,850	£386,161
NET CURRENT ASSETS	2,516,820	2,308,490	573,670	425,930
FIXED ASSETS (*Note 5*)	2,762,136	2,631,011	8,250	8,250
SUBSIDIARY COMPANIES				
Shares at Cost or Nominal Value less amounts written off	—	—	3,934,941	3,934,941
UNQUOTED INVESTMENT at cost (*Note 6*)	28,262	24,000	28,262	24,000
	£5,307,218	£4,963,501	£4,545,123	£4,393,121

C. G. FRASER }
A. B. STIRLING } *Directors*

Notes on Balance Sheets

1 SHARE CAPITAL

	Authorised £	Issued and Fully Paid £
100,000 5% Cumulative Preference Shares of £1 each	100,000	100,000
16,000,000 Ordinary Shares of 5/- each	4,000,000	2,775,000
	£4,100,000	£2,875,000

2 RESERVES

	Group 1968 £	Group 1967 £	Parent 1968 £	Parent 1967 £
CAPITAL RESERVE				
At 31st March, 1967 (1966)	394,170	406,801	193,999	193,754
Add:				
Investment Grants	74,953	37,124	—	—
Devaluation adjustment	58,020	—	—	—
Capital gains tax adjustment	—	245	—	245
	527,143	444,170	193,999	193,999
Less:				
Elimination of Goodwill arising on consolidation	—	50,000	—	—
At 31st March, 1968	£527,143	£394,170	£193,999	£193,999
GENERAL RESERVE				
At 31st March 1967 (1966)	1,694,331	1,493,707	1,324,122	1,176,694
Retained profit for the year	210,744	200,624	152,002	147,428
At 31st March 1968	1,905,075	1,694,331	1,476,124	1,324,122
Total Reserves at 31st March 1968	£2,432,218	£2,088,501	£1,670,123	£1,518,121

3 QUOTED INVESTMENTS

	Group 1968 £	Group 1967 £	Parent 1968 £	Parent 1967 £
Investments in British Government Stocks Book Value	92,001	92,376	92,001	92,376
Market Value	89,750	90,375	89,750	90,375
(Short and Medium Dated)				

4 STOCK AND WORK IN PROGRESS

Stocks have been consistently valued at the lower of cost or net realisable value.

N GREENING & SONS LIMITED

Notes on Balance Sheets—*continued*

5 FIXED ASSETS

As independently revalued at 1st April 1963 with subsequent additions at cost less disposals:	GROUP Freehold and Leasehold Properties	Plant and Machinery	Total
	£	£	£
Valuation or Cost			
At 31st March 1967	1,261,209	1,886,308	3,147,517
Additions during the year	76,016	189,165	265,181
Devaluation Adjustment	10,891	25,771	36,662
	1,348,116	2,101,244	3,449,360
Disposals during the year	250	14,454	14,704
Valuation or cost at 31st March 1968	£1,347,866	£2,086,790	£3,434,656
Comprising:			
Valuation at 1st April 1963	1,071,846	1,238,611	2,310,457
Subsequent net additions at cost	276,020	848,179	1,124,199
	£1,347,866	£2,086,790	£3,434,656
Cumulative Depreciation			
At 31st March 1967	76,784	439,722	516,506
Amount provided for the year	21,266	133,825	155,091
Devaluation adjustment	—	7,242	7,242
	98,050	580,789	678,839
Eliminated in respect of disposals	8	6,311	6,319
At 31st March 1968	£98,042	£574,478	£672,520

NET BOOK VALUES at valuation or cost less depreciation:	£	£	£
At 31st March 1967	1,184,425	1,446,586	2,631,011
At 31st March 1968	1,249,824	1,512,312	2,762,136

The major portion of the properties is freehold. The remainder is principally leased with an unexpired term exceeding 900 years.

The Holding Company's Fixed Assets consist solely of a Freehold Property as independently revalued at 1st April 1963.

6 UNQUOTED INVESTMENT

A Trade Investment relating to a holding of Ordinary Shares in Hunter Gate & Fence Co Ltd, incorporated in Australia and representing 46% of the issued Capital of that Company. The Directors valuation of this holding is £46,975.

7 FOREIGN CURRENCY CONVERSION

Assets and liabilities in currency have been converted at rates ruling at 31st March 1968.

8 FUTURE CAPITAL EXPENDITURE

	Group 1968 £	*1967* *£*	Parent 1968 £	*1967* *£*
Contracted for but not provided in these accounts	92,500	*126,000*	—	—
Authorised by the Directors but not contracted for	219,500	—	—	—

Fraser says that the company has 'again been conservative in carrying the whole of the investment grant received to capital reserve'. The devaluation adjustment turns on the difference arising on consolidation of the assets of the South African subsidiary due to devaluation. The rise in debtors reflects, in part, higher sales in the final quarter and partly an increase in the amount owing for investment grant, while the reduction of £145,000 in creditors, states Mr Fraser, 'is misleading because the corresponding figure for last year was inflated by an item for taxation on dividends'.

The group manufactures woven wire, wire screens, wire conveyor belts, and in fact, most kinds of wire products.

Below capacity

In the company's interim report, half-year profits were shown at £379,000 for the first six months. 'By difference', Mr Fraser says, 'the profit for the second six months would be £510,000 but due to various factors the apparent increase in rate of profit is misleading.'

There was, first of all, a 10 per cent difference in the number of working days in the two half-years and 'to this must be added what have proved to be certain overprovisions at the half-year, notably in respect of Training Board Levy'. On the basis of the full year's accounts, the best estimate that can be made is that the rate of profit improved by about 2 or 3 per cent in the second half.

Summing up, Mr Fraser says that the outcome for the year throughout the group as a whole was that it was operating below capacity, that selling prices were static and in some cases reduced (although virtually all costs and taxation increased) and that improvements in productivity did no more than maintain a precarious balance.

He then states: 'Our return on capital employed, after charging corporation tax, declined from 10·3 per cent to 9·8 per cent. This is the type of statistic that ought to be incorporated in the ten-year record rather than tucked away in the chairman's statement. If it is incorporated in the record there is running evidence of the company's performance.

Present handicaps

Although devaluation had helped the order position to reach a record pitch by the end of the financial year, Mr Fraser considers that, in terms of profit, it is difficult to say whether the increase in turnover will be sufficient to outweigh present handicaps. These include the removal of S.E.T. premium, elimination of export rebate, absence of any exceptional credits arising from devaluation and the upward revision of the Training Board grant.

Taking these factors into account, plus the prospective increase in most costs, 'it is obviously going to be difficult to achieve any further recovery in profit'. Clearly devaluation last November was the main factor influencing the second half of the year under review and it meant a better result than seemed likely when the half-year report was made precisely ten days before devaluation.

Mr Fraser comments on immediate prospects: 'One comes back to the crucial question whether the Government's prices and incomes policy can be operated successfully so that the opportunities of devaluation become realities and our country is thereby enabled to make a vigorous upswing from the stagnation which we have experienced since July 1966.'

There is little current evidence to suggest that the 'upswing' is likely to prove 'vigorous'.

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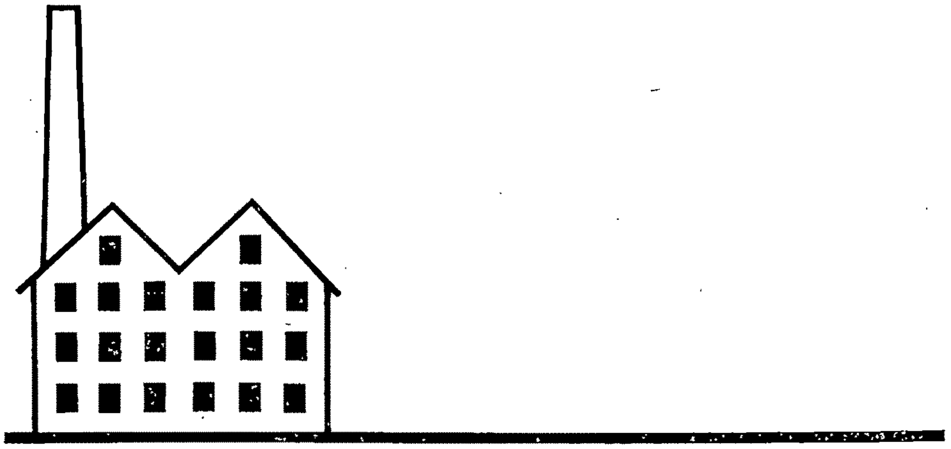

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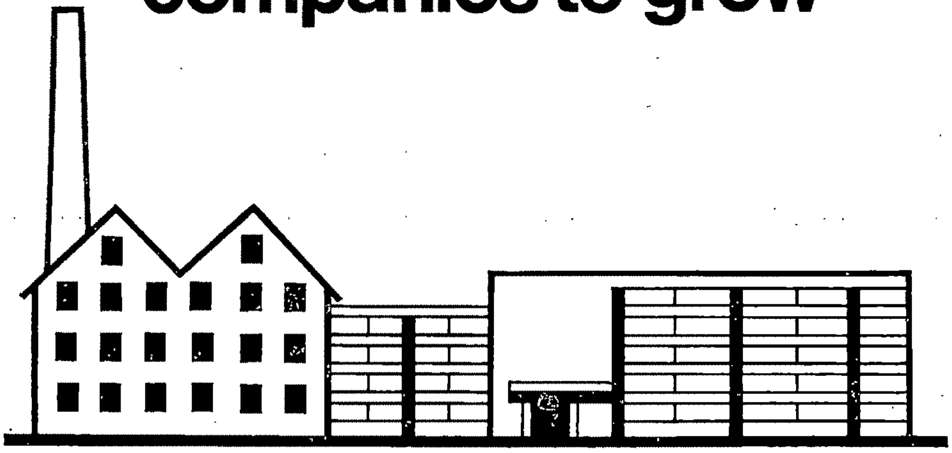

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CITY NOTES

AS the equity markets look at the 'Everest' of 500 for *The Financial Times* share index, the inevitable question of what lies beyond has to be asked. The view from stock-market peaks is always obscured by cloud. It is always extremely difficult to judge whether or not there is a slope, valley or ravine ahead or whether the 'peak' itself is a false crest.

In a market of 'situations', take-overs, mergers and sheer weight of money, established methods of judging market trends can prove false. It is, for example, reasonable judgement to insist that even an earnings, as distinct from a dividend, based market is currently discounting earnings growth much too far ahead for comfort.

Granted 1968 earnings will be good, but equity prices are currently discounting similarly good, if not better, growth in earnings in 1969 and even into 1970. On that basis there is, as some brokers insist in the modern jargon, 'considerable downside potential' at the present pitch of prices.

But that downside potential will only be realized if there is a marked tendency to sell. And since gains tax plus the problem of reinvestment are two major obstacles against selling, then the prospect of selling for anything other than switching operations seems to be slight.

Ordinarily there would be an 'out of equities into gilts' move at this stage. But who wants gilts?

* * * *

THE American Tobacco–Gallaher affair has reinforced the City's intense dislike of partial bids. It has also reinforced the view that a Panel on Mergers and Take-over procedure is at best limited in its influence if its power is limited to persuasion.

If there are going to be rules, then there should be a system which enforces those rules. On the fringe of the City there is a view that there should be no rules at all and that a free market in shares means no holds barred.

But the present concern with protecting rank and file shareholders from the effect of professional operations in the market and with protecting companies from unscrupulous take-over operations means that there must be some form of control. The present form has been taken to a point where the next logical step would seem to be a new form of control operated from outside the City rather than from inside the City and also by it.

* * * *

STOCKBROKERS Joseph Sebag & Co have broken new stockbroking ground by opening an office in London's West End at 6 Bruton Street. Equipped to provide full prices and information service, the West End office should attract and serve a new clientele and it will be surprising if other leading brokers do not follow Sebag's lead. The firm is one of the few London firms with direct American connections: Joseph Sebag Inc. is a member of the Pacific Coast Stock Exchange in Los Angeles.

* * * *

WHILE the Minister of Technology has invited the Industrial Reorganization Corporation to help reform the present three nuclear power construction groups and the United Kingdom Atomic Energy Authority into a new body, the Minister of Power is setting up a committee to inquire into the causes of delays in commissioning power stations for the Central Electricity Generating Board. Against this background I.R.C. is currently engaged in assisting the merger of three major companies in the power plant and allied engineering spheres – International Combustion, Clarke Chapman and John Thompson. Excess capacity exists in the power plant industry because of the absence of any new big scale C.E.G.B. power station programme.

RATES AND PRICES

Closing prices, Tuesday, July 23rd, 1968

Tax Reserve Certificates: (29.11.67) Companies 4⅜%;
3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966	7%	Oct. 19, 1967	6%
Jan. 26, 1967	6½%	Nov. 9, 1967	6½%
Mar. 16, 1967	6%	Nov. 18, 1967	8%
May 4, 1967	5½%	Mar. 21, 1968	7½%

Treasury Bills

May 17 ..	£7	2*s*	4·09*d*%	June 21 ..	£7	3*s*	8·57*d*%
May 24 ..	£7	4*s*	0·76*d*%	June 28 ..	£7	4*s*	10·04*d*%
May 31 ..	£7	4*s*	9·88*d*%	July 5 ..	£7	4*s*	9·73*d*%
June 7 ..	£7	4*s*	3·30*d*%	July 12 ..	£7	3*s*	5·60*d*%
June 14 ..	£7	3*s*	9·58*d*%	July 19 ..	£7	2*s*	5·25*d*%

Money Rates

Day to day ..	5⅞–7⅛%	*Bank Bills*	
7 days	5¾–7⅛%	2 months ..	7½–7$\frac{9}{16}$%
Fine Trade Bills		3 months ..	7½–7$\frac{9}{16}$%
3 months ..	8½–9%	4 months ..	7½–7$\frac{9}{16}$%
4 months ..	8½–9¼%	6 months ..	7½–7$\frac{9}{16}$%
6 months ..	8¾–9½%		

Foreign Exchanges

New York	2·39$\frac{3}{16}$	Frankfurt ..	9·58$\frac{13}{16}$
Montreal	2·56$\frac{9}{16}$	Milan	1487¾
Amsterdam ..	8·66¾	Oslo	17·08½
Brussels	119·60	Paris	11·89⅝
Copenhagen ..	17·97¾	Zürich	10·29$\frac{15}{16}$

Gilt-edged

Consols 4% ..	52⅝	Funding 6% 1993	83½
Consols 2½% ..	33$\frac{7}{16}$	Savings 3% 60–70 ..	90$\frac{13}{16}$
Conversion 3½% ..	47$\frac{7}{16}$	Savings 3% 65–75 ..	74
Conversion 5% 1971	92½	Treasury 6½% 1976	93⅝
Conversion 5¼% 1974	89$\frac{1}{16}$	Treasury 3½% 77–80	71⅝
Conversion 6% 1972	94⅜	Treasury 3½% 79–81	68¼
Funding 3½% 99–04	51$\frac{13}{16}$	Treasury 5% 86–89	74$\frac{1}{16}$
Funding 4% 60–90	95$\frac{9}{16}$	Treasury 5½% 08–12	75⅝
Funding 5¼% 78–80	81½	Treasury 2½% ..	34
Funding 5½% 82–84	80$\frac{11}{16}$	Victory 4%	96½
Funding 5¾% 87–91	81⅛	War Loan 3½% ..	46¾

Correspondence

Future of the Accountancy Profession

Sir, – With reference to the letter from Mr A. J. Adams, published in your issue of July 20th, I should like to point out that, on the balance of probabilities, an integration scheme of the kind envisaged will reduce everybody to the lowest common denominator, from which we may never rise again. It is ludicrous to suggest that it will bring us any nearer to 'Brothers-in-law' or 'Doctor in the House'.

Yours faithfully,

London W1. DAVID KROLL, F.C.A., F.A.C.C.A.

Sir, – The contrast between what people say and what they do can be so marked that most try and avoid the juxtaposition. This being so Mr Roberts's letter in your issue of July 13th is refreshing in its candour.

In an earlier letter (June 29th issue) I had expressed the view that integration should be opposed because most of the members of the other bodies concerned lacked the training and experience required to justify professional status.

Mr Roberts devotes three paragraphs of his letter to denouncing this opinion, but concludes by revealing, rather surprisingly, that when his own son's career was at issue, he had had him articled to a chartered accountant.

Evidently, whenever the chips are down, Mr Roberts acts on the Frenchman's famous sentiment – *Vive la différence!*

Yours faithfully,

Blackrock, Dublin. E. J. CARROLL, F.C.A.

Revaluation of Fixed Assets

Sir, – Many of us have been troubled by the requirements of section 16 (1) (*a*) of the Companies Act 1967 for directors' reports to give information about the market value of land (and buildings). This is an extremely badly worded section, partly because in the same sentence there is a reference to disclosing changes in fixed assets and a reference to indicating market values of land, and it is not absolutely clear that the latter requirement is unrelated to changes. Some of us have felt that if the requirement meant that an annual valuation had to be made, it was extremely onerous and largely useless, but it has seemed difficult to put any other interpretation on the words. Looking back to the report of the Jenkins Committee, however, it is apparent that, although the wording of the Act closely follows the recommendations of that Committee, it was certainly not their intention that there should be an annual valuation. It is instructive to look at the wording in some detail.

Paragraph 353 says 'To require a periodical revaluation of fixed assets would, in our opinion, be to impose a most onerous duty on the companies and require them to give information which we think would often be worthless and misleading'. The report speculates on the importance of the matter in relation to assets which are not 'specific' to a particular business, but concludes that statutory definition of this would be too difficult. On the one hand, the value of a steel works, as a specific asset, is of little significance to shareholders separate from its profitability, whereas a High Street shop might be turned to other uses. Their conclusion was (paragraph 360) that where the current market value was substantially different 'and the directors consider that this difference is of real significance to the shareholders – for example, because some or all of the assets could be profitably sold for use for another purpose – we think that the directors should be required to indicate this fact . . .'.

This was, in fact, the substance of their recommendation in paragraph 122, using the important word 'significance' which was repeated in the enactment, but many of us have been interpreting this as referring solely to the magnitude of the difference in figures, whereas it appears that this was not the Committee's intention. They were thinking of significance in relation to all the circumstances, e.g. the possibility of sale without disturbance of the business so that, in many cases, the increased (or decreased) value of premises not readily severable from the business would not have significance in this sense, however great in amount.

It is perhaps difficult to decide whether the report has any legal impact on the interpretation of the Act, but, in view of the confusion which already exists on this point and the poor standard of drafting in this particular section, it would seem legitimate to rely on the Jenkins report.

Yours faithfully,

Enfield. H. NORRIS.

Directors' Share Interests

Sir, – The Companies Act 1967, section 16, requires that a company shall state interests of directors in shares or debentures of a company and its subsidiaries. The details should be as per the register kept by the company. The wording of the Act is not very clear and it seems that if the purpose of this disclosure is to give shareholders and/or the public an indication of the directors' real interest in the company and what they stand to gain or lose by the company's success or failure, then the nature of this interest must surely be indicated. This may often be difficult where a complicated trust is involved but unless a serious attempt is made to give the information in a meaningful manner there seems little point in giving it at all.

It might be pointed out here that the nature of directors' interests in shares and debentures can be very important in assessing the apparent adequacy of the remuneration stated in the accounts. A director with a substantial holding entitling him to, say, £100,000 per annum by way of interest or dividend may consider an additional couple of thousand in his emoluments neither here nor there. The writer of the article 'Directors on the breadline' in the *Sunday Times*, July 7th, did not seem to take this point.

In the accounts of Sears Holdings to January 31st, 1968, the notes to the accounts state, *inter alia*, that the company holds 74 per cent of the ordinary shares in the British Shoe

Corporation Ltd. In an appendix, one of the directors, Mr Leonard Sainer, is shown as having an interest in 65,562,580 ordinary shares in the British Shoe Corporation Ltd. No indication of the nature of this interest is given. The holding amounts to almost 75 per cent of the ordinary share capital of that company. To the innocent shareholder, it might appear, (*a*) that this director holds personally over sixty-five million shares – this would entitle him to a dividend of over £3 million, and (*b*) that both the company and the director hold a controlling interest of nearly 75 per cent each – a rather impossible situation.

In so far as Sears Holdings appear to take the greater part of the profits of the British Shoe Corporation to the credit of their own account, one must suppose that Mr Sainer has only a limited beneficial interest in the shares stated after his name and that the greater part of these shares, if not all, are registered in the name of Sears Holdings, and that that company has effectively the beneficial interest.

Mr Clore, the chairman, in his report, states that the Act makes it 'necessary . . . to set out facts and figures some of which are quite useless to shareholders or financial commentators . . .'. He appears to have gone to some trouble to prove his point in the information he has provided. It is, however, doubtful whether it was necessary to supply the information regarding directors' interests in such an incomprehensible form. Surely some indication of the nature of the interest in each case could have been given. If Mr Clore wishes to protest against the inadequacy or ambiguity of section 16, it does not seem reasonable to do so at the expense of the shareholders, and the giving of meaningless information is more likely than anything else to suggest that the person giving it has something to hide.

Might it not be reasonable if the law were to provide that any information in a directors' report that is taken from statutory books should be subject to the scrutiny of the auditors?

Yours faithfully,

Barry, Glamorgan. MICHAEL J. GREENER.

Accountants' Reports on Profit Forecasts

The Council of The Institute of Chartered Accountants in England and Wales has issued the following guidance for auditors or consultant accountants who are asked to give reports on profit forecasts of companies and for members advising boards of directors on this subject. The statement has been prepared with particular reference to the City Code on Take-overs and Mergers (the code), but the principles set out apply equally to any independent accountants' review of profit forecasts. The statement has been prepared in consultation with the Council of The Institute of Chartered Accountants of Scotland, and is issued with the assent of the Panel on Take-overs and Mergers.

Introduction

PROFIT forecasts are normally prepared solely for internal use by the managements of companies, but there may be occasions when, for financial reasons, they are disclosed to outsiders. In such circumstances auditors or consultant accountants (subsequently referred to collectively as 'reporting accountants') may be asked to review and report on forecasts to boards of directors.

2. It is emphasized that profit forecasts necessarily depend on subjective judgements and are, to a greater or less extent, according to the nature of the business, subject to numerous and substantial inherent uncertainties, which increase markedly the further forward in time the forecasts stretch.

3. In consequence profit forecasts are not capable of confirmation and verification by reporting accountants in the same way as financial statements which present actual results, and there is no question of their being 'audited' in any sense, even though the reporting accountants may also be the company's auditors. It is important that reporting accountants should make this clear when they accept instructions to review profit forecasts, and in the wording of their report they should take care to avoid giving any impression that they are in any way confirming, underwriting, guaranteeing or otherwise accepting responsibility for the ultimate accuracy and realization of forecasts. Moreover, bearing in mind their special status and authority, reporting accountants should do or say nothing to encourage directors, third parties or the public to place mistaken reliance on statements as to future profits the achievement of which must always be subject to uncertainty.

4. Reporting accountants can, however, within limits, which are further discussed below, properly undertake a critical and objective review of the assumptions on which profits forecasts are based, and can verify that the forecasts have been properly computed, on a basis consistent with the company's previous accounting principles, from the underlying assumptions and data.

5. Paragraph 15 of the code does not call for the accountants' report in connection with profit forecasts to be published. Publication would in any case be impracticable in

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Copies of the City Code are obtainable from the Secretary, Issuing Houses Association, St Albans House, Goldsmith Street, London EC2, price 2*s* each.

the great majority of cases because the accountants' report to the directors is likely to be lengthy, contain references to important underlying documents and evidence not available to the public, and will often disclose information of a nature which the directors may properly prefer to treat as confidential. Equally, however, the accountants' report would be incomplete and likely to mislead if such details were omitted or a summary attempted. For these reasons the accountants' report is not usually suitable for publication and is likely to be published only in unusual circumstances such as those described in paragraph 6 (*e*) below.

6. In the light of what is said above, reporting accountants are advised to reach agreement with directors on the following points before accepting instructions to report in connection with profit forecasts.

(*a*) Although reporting accountants can provide the board with some reassurance on the lines referred to in paragraph 4 above, they cannot relieve the directors of the responsibility for profit forecasts which are disclosed to and may be relied on by outsiders.

(*b*) Because profit forecasts are subject to increasing uncertainty the further forward they reach in time, reporting accountants should not normally undertake to review and report to directors on profit forecasts for more than the current accounting year, and, provided a sufficiently significant part of the current year has elapsed, the next following accounting year.

(*c*) There can be no objection to the adoption in circulars to which the code applies of the normal practice by which the names of auditors and consultant accountants are published in common with the names of a company's other advisers.

(*d*) It must be understood that it will be assumed by the public that profit forecasts contained in circulars to which the code applies have been reported on by the company's auditors or consultant accountants in accordance with paragraph 15 of the code. Because, however, of the limitations of the responsibility which reporting accountants can properly assume in respect of profit forecasts set out in paragraphs 3 and 4 above, reporting accountants should not permit their name to be directly associated with profit forecasts in circulars.

(*e*) If the reporting accountants have material reservations as to the bases, calculations or presentation of profit forecasts proposed to be published in a circular, they should request that their reservations be published in the document. If their name is in any way wrongly used to suggest that they have given unqualified and positive approval of profit forecasts they should immediately issue a denial and inform the Panel on Take-overs and Mergers.

(*f*) Because of the limitations of the responsibility which they can properly take, referred to in paragraphs 3 and 4 above, accountants should accept instructions to report on profit forecasts under the code, and allow their name to be cited in relevant circulars, only on condition that the directors include in the circular a statement to the effect that the requirements of paragraph 15 of the code regarding forecasts have been complied with, and that the forecasts are the sole responsibility of the directors and not of the auditors, consultant accountants or other advisers.

Preliminary considerations

7. In the context of take-overs the time within which the accountants' report is required may be restricted, particularly if an offeree company wishes to show reason why its shareholders should decline an offer, and in these circumstances the company concerned should lose no time in instructing reporting accountants so as to minimize risk of delay. If the reporting accountants' review is exceptionally restricted by lack of time, their report should say so.

8. When accepting instructions from boards of directors to review and report in connection with profit forecasts the main points which the reporting accountants will wish to establish as a preliminary include the following.

(*a*) The purpose for which the forecasts have been prepared and the accountants' report is required.

(*b*) The persons other than the directors to whom the accountants' report may be shown (for instance, in the context of the code, disclosure would normally be limited to the company's advisers and the Panel on Take-overs and Mergers).

(*c*) That the directors assume full responsibility for the forecasts under review and that they will signify such responsibility by formal adoption by the board and a statement to that effect in relevant circulars in accordance with paragraph 6 (*f*) above.

(*d*) The identities of the company's merchant bankers, advisers or other independent professional experts reporting in connection with the forecasts, with whom the reporting accountants will wish to consult and keep in touch. It will be recalled that the forecasts and the assumptions on which they rest must be corroborated, as far as possible, and reported on by the company's merchant bank or other advisers, and revaluations of assets must be supported by the opinion of independent professional experts (code, paragraph 15 – see appendix).

Main points to be considered in reporting accountants' review

9. In carrying out their review the main points which the reporting accountants will wish to consider include the following.

(*a*) The company's general character and recent history, with reference to such matters as the general nature of its activities, and its main products, markets, customers, suppliers, locations and labour force.

(*b*) Whether the profit forecasts under review are based on forecasts regularly prepared for the purpose of management, or whether they have been separately and specially prepared for the immediate purpose.

(*c*) Whether the forecasts under review represent the management's best estimate of results which they reasonably believe can and will be achieved; i.e. estimated out-turn as distinct from targets which the management has set as desirable.

(*d*) Where profit forecasts are regularly prepared for management purposes, the degree of accuracy and reliability previously achieved.

(*e*) The extent to which actual results for the current period so far are supported by reliable management accounts and are in line with estimated out-turn, and the frequency and thoroughness with which estimates of out-turn are revised.

(*f*) The main assumptions on which the forecasts are based.

(*g*) The extent to which the forecasts are built up from detailed forecasts in respect of the main divisions or lines of activity of the business.

(*h*) The extent to which appraisal of forecasts in respect of main divisions or lines can be assisted by separating those which may be regarded as showing a proved and consistent trend from those of a more irregular, volatile or unproved nature.

(*i*) The extent to which sales forecasts, especially in respect of irregular, volatile or unproved lines are supported by competently prepared market or similar surveys.

(*j*) The extent to which the forecasts take account of material exceptional items, their nature, and how they are dealt with and presented.

(*k*) The extent to which provision is made for foreseeable losses and contingencies.

(*l*) Whether working capital appears adequate for requirements as shown by properly prepared cash flow forecasts; and where short-term finance is to be relied on, whether the necessary arrangements have been made and confirmed.

(*m*) Whether the forecasts have been prepared and presented on bases consistent with the accounting principles and practices adopted by the company in previous years, and if not, whether the fact and effects of any material change of basis are made clear.

Main matters to be stated in accountants' report

10. The accountants' report under the code (which may necessarily on occasion be lengthy) will normally include statements dealing with the following matters, so far as appropriate.

(*a*) The fact that the reporting accountants have carried out a review of profit forecasts prepared by the company's officials.

(*b*) The date the forecasts were formally adopted by the board.

(*c*) The purpose for which the forecasts have been prepared.

(*d*) The persons to whom the accountants' report may be shown, and in what connection.

(*e*) Specific identification of the forecasts and documents to which the report refers.

(*f*) If, as will usually be the case, the reporting accountants have not carried out an audit of actual results so far of the current accounting period, a statement to that effect.

(*g*) A description of the work carried out and the identities, specific or in general, of the principal officials consulted by the accountants in the course of their review.

(*h*) The main assumptions on which the forecasts are based.

(*i*) Whether, so far as appears from the information and explanations they have received, the forecasts have in the opinion of the reporting accountants been prepared and presented on bases consistent with the accounting principles adopted by the company in previous years and have been properly computed from the underlying assumptions and data on which they are based; and whether anything had come to the notice of the reporting accountants to lead them to believe that the forecasts were unrealistic, misleadingly presented or otherwise unlikely to be achieved. (While the reporting accountants will not be in a position to express a conclusive opinion on the ultimate validity and reliability of forecasts, they should report to the directors if they have reason to believe they will not be achieved; see also (*l*) below.)

(*j*) Whether working capital appears adequate for forecast requirements, and if short-term finance is to be relied on, whether the necessary arrangements to ensure such finance have been made and satisfactorily confirmed.

(*k*) It should be made clear that:

  (i) the report is solely for the information of the directors and, as appropriate, the company's advisers and the Panel on Take-overs and Mergers, and only in connection with the purpose for which it was prepared;

  (ii) the name of the reporting accountants is not to be directly associated with the profit forecasts.

(*l*) If the reporting accountants have material reservations as to the bases, calculations or presentation of profit forecasts which the directors nevertheless propose to publish, the accountants should request in their report that their reservations be published in the relevant circular.

Appendix

THE CITY CODE ON TAKE-OVERS AND MERGERS

Paragraph 15 of the City Code on Take-overs and Mergers (published in March 1968) is as follows:

15. Without in any way detracting from the imperative necessity of maintaining the highest standards of accuracy and fair presentation in all communications to shareholders in a take-over or merger transaction, attention is particularly drawn in this connection to profit forecasts and asset valuations.

Profit forecasts must be compiled by the directors with the greatest possible care; the calculations and the bases for the forecasts must be examined and reported on by the auditors or consultant accountants. The forecasts and the assumptions on which they rest must be corroborated, as far as possible, and reported on by the company's merchant bank or other advisers. The reports by the auditors or consultant accountants and by the advisers shall be made in writing to the directors. The assumptions on which the profit forecasts are based must be stated in the circular.

Wherever profit forecasts appear in a circular in relation to a period in which trading has already commenced, the circular must state the latest unaudited profit figures which are available in respect of the expired portion of that trading period together with comparable figures for the preceding year. Alternatively, if no figures are available, that fact must also be stated.

When revaluations of assets are given in connection with an offer the board should be supported by the opinion of independent professional experts and the basis of valuation clearly stated.

Proposed Integration Scheme

Local Discussion Meetings

LOCAL meetings of members to discuss the proposed integration scheme have already been arranged by some of the participating bodies. The meetings are being held under the auspices of the district or other local societies, but any member will be welcome to attend the meeting in his area of his own particular body, whether he or she is enrolled with the local society or not. Members will be required to produce their copy of the scheme to gain admission.

Council members will be present at the meetings to explain points of difficulty and to answer questions. The date, time and place of each meeting is given below.

The Institute of Chartered Accountants in England and Wales

District Society	*Date*	*Time*	*Place*
Birmingham and West Midlands			
	October 3rd	6.30 p.m.	University of Aston, Birmingham
	October 28th	6 p.m.	Coventry
	October 30th	6 p.m.	Connaught Hotel, Tettenhall Road, Wolverhampton
	November 8th	6 p.m.	North Stafford Hotel, Stoke-on-Trent
East Anglian			
	October 7th	6 for 7 p.m.	The Officers Club, Colchester
	October 16th	7 for 8 p.m.	The Dorothy Restaurant, 20–24 Sidney Street, Cambridge
	November 12th	7.30 p.m.	The Banqueting Room, Royal Hotel, Norwich
Hull, East Yorkshire and Lincolnshire			
	November 1st	7.30 p.m.	Yarborough Hotel, Old Market Place, Grimsby
	November 18th	6.30 p.m.	Royal Station Hotel, Paragon Square, Hull
	November 19th	6 for 6.45 p.m.	Pavilion Hotel, Westborough, Scarborough
Leeds, Bradford and District			
	November 27th	7 p.m.	Town Hall, Leeds
Leicestershire and Northamptonshire			
	November 11th	4 p.m.	Top Rank, Leicester Suite, Leicester
	November 26th	4 p.m.	Anglia Conference Hall, 85 Abington Street, Northampton
Liverpool			
	October 21st	7.30 p.m.	Sefton Hotel, Douglas, Isle of Man
	October 22nd	6.30 p.m.	Blossoms Hotel, Chester
	October 23rd	2 p.m.	Central Hall, Renshaw Street, Liverpool 1
London and District			
	September 24th	6 p.m.	Church House, Westminster, London
	September 26th	2.30 p.m.	Church House, Westminster, London
	October 3rd	6.45 for 7.15 p.m.	Kings Head Hotel, Market Place, Romford
	October 15th	2.30 p.m.	Church House, Westminster, London
	October 16th	6 p.m.	Church House, Westminster, London
	October 29th	7 for 7.30 p.m.	Civic Centre, Victoria Avenue, Southend
	November 4th	7 p.m.	The University of Reading, Whiteknights, Shinfield Road, Reading
	November 6th	5.30 p.m.	Slough Community Centre, Farnham Road, Slough
	November 12th	7 p.m.	The Royal Oxford Hotel, Oxford
	November 14th	7.15 for 7.45 p.m.	Saracen's Head, High Street, Chelmsford
	November 25th	7 p.m.	Harpenden Public Hall, Southdown Road, Harpenden
Manchester			
	October 10th	5.30 p.m.	New Century Hall, Corporation Street, Manchester 4
	December 3rd	5.30 p.m.	New Century Hall, Corporation Street, Manchester 4
North West			
	October 8th	7 p.m.	County Hotel, Kendal
	October 9th	7 p.m.	Bull & Royal Hotel, Preston
	October 10th	7 p.m.	Sparrow Hawk Hotel, Burnley
Northern			
	October 9th	4 p.m.	Mecca Ballroom, Newcastle
	November 13th	6.15 p.m.	King's Head Hotel, Darlington
	October 7th	5.30 p.m.	County & Station Hotel, Court Square, Carlisle
Nottingham			
	September 30th	6 p.m.	The Midland Hotel, Derby
	October 14th	5 p.m.	Victoria Hotel, Nottingham
	October 28th	5 p.m.	Moor Lodge Hotel, Branston, Lincoln
Sheffield and District			
	October 31st	7 p.m.	Sheffield City Memorial Hall, Sheffield
South Eastern			
	September 26th	2.30 p.m.	University of Kent, Canterbury
	October 15th	5.30 p.m.	Burford Bridge Hotel, Box Hill, Dorking
	October 30th	5.30 p.m.	Tudor House, Bearsted, Maidstone
	November 14th	5.30 p.m.	Queens Hotel, Hastings
	November 27th	5.30 p.m.	Hotel Metropole, Brighton
South Wales and Monmouthshire			
	October 25th	2.15 p.m.	Reardon Smith Lecture Theatre, Cardiff
Southern			
	September 27th	2.15 p.m.*	University of Southampton, Southampton * *First day of residential conference. Discussion is accordingly likely to continue in the evening.*
West of England			
	October 17th	5.30 p.m.	Queen's Hotel, Promenade, Cheltenham
	November 13th	5 p.m.	Council House, Conference Hall, Bristol
	November 21st	6.30 p.m.	Newman Lecture Theatre, Exeter University, Exeter
	November 22nd	11 a.m.	The Duke of Cornwall Hotel, Millbay Road, Plymouth

The Institute of Chartered Accountants of Scotland

Dundee	September 26th	4 p.m.	Angus Hotel, Nethergate, Dundee
Inverness	October 1st	7.30 p.m.	Cummings Hotel, Church Street, Inverness
Ayr	October 3rd	7.30 p.m.	Station Hotel, Ayr
Glasgow	October 10th	2 p.m.	McLellan Galleries, Sauchiehall Street, Glasgow
Aberdeen	October 22nd	7.30 p.m.	Aberdeen Technical College, Gallowgate, Aberdeen
Dumfries	October 24th	6.30 p.m.	Station Hotel, Dumfries
Edinburgh	October 29th	2 p.m.	Freemasons' Hall, George Street, Edinburgh
Kelso	October 31st	7.30 p.m.	Ednam House Hotel, Kelso
London	November 5th	4 p.m.	The Lecture Hall, Central Hall, Tothill Street, Westminster, London SW1
Bristol	November 6th	to be announced	
Birmingham	November 7th		
Manchester			
Newcastle	November 18th		The Royal Station Hotel, Newcastle

The Association of Certified and Corporate Accountants

Nottingham	September 30th	6.15 p.m.	Welbeck Hotel, Milton Street, Nottingham
Cambridge	October 1st	6.30 p.m.	University Arms Hotel, Regent Street, Cambridge
Norwich	October 2nd	7 p.m.	Royal Hotel, Norwich
Newcastle upon Tyne	October 7th	6.30 p.m.	Lecture Theatre No. 1, School of Physics, University of Newcastle
Leeds	October 9th	6.45 p.m.	Great Northern Hotel, Wellington Street, Leeds
Hull	October 10th	7.30 p.m.	Royal Station Hotel, Hull
Glasgow	October 14th	5.45 p.m.	Merchants Hall, 30 George Square, Glasgow
Edinburgh	October 15th,	5.45 p.m.	Kintore Rooms, 74 Queen Street, Edinburgh
Brighton	October 15th	5.45 p.m.	Royal Pavilion Theatre, Church Street, Brighton 1
Southampton	October 16th	6.30 p.m.	Skyways Hotel, Herbert Walker Avenue (near Royal Pier), Southampton
Dublin	October 16th	7.30 p.m.	Shelbourne Hotel, St Stephens' Green, Dublin 2
Belfast	October 17th	12.15 p.m.	Grand Central Hotel, Belfast
Exeter	October 22nd	7 p.m.	Rougemont Hotel, Queen Street, Exeter
Cardiff	October 22nd	6.15 p.m.	Royal Hotel, Cardiff
Bristol	October 23rd	7 p.m.	Chemistry Lecture Theatre, School of Chemistry, University of Bristol, Woodland Road, Bristol 8
Birmingham	October 23rd	6.30 p.m.	Haworth Lecture Theatre, Birmingham University
Sheffield	October 29th	5.45 p.m.	Grand Hotel, Sheffield 1
Manchester	October 30th	6.30 p.m.	Houldsworth Hall, 90 Deansgate, Manchester 3
Liverpool	October 30th	5.45 p.m.	Central Hall, Renshaw Street, Liverpool
Preston	October 31st	5.45 p.m.	Bull and Royal Hotel, Preston
London	November 4th	6 p.m.	Central Hall, Westminster, London SW1

The Institute of Cost and Works Accountants

Belfast	November 19th	6.30 p.m.	Grand Central Hotel, Royal Avenue, Belfast
Birmingham	October 15th	6.30 p.m.	Savoy Hotel, Hill Street, Birmingham
Bristol	October 3rd	6.30 p.m.	C.E.G.B. Offices, Oakfield Grove, Clifton, Bristol
Cardiff	October 9th	6.30 p.m.	Institute of Engineers, Park Place, Cardiff
Dublin	November 20th	6.30 p.m.	Shelbourne Hotel, St Stephens' Green, Dublin
Dundee	November 13th	6.30 p.m.	Angus Hotel, Nethergate, Dundee
Glasgow	November 14th	6.30 p.m.	St Enoch Hotel, St Enoch Square, Glasgow
Leeds	October 24th	6.30 p.m.	Merrion Hotel, Merrion Centre, Leeds
Liverpool	November 5th	6.30 p.m.	Lecture Theatre B, Liverpool University Precinct, Liverpool

London		
October 1st	6.30 p.m.	Connaught Rooms, Great Queen Street, Kingsway, London WC2
London		
October 5th	10 a.m.	Connaught Rooms, Great Queen Street, Kingsway, London WC2
Manchester		
November 4th	6.30 p.m.	Midland Hotel, Peter Street, Manchester
Newcastle		
November 12th	6.30 p.m.	Royal Station Hotel, Newcastle
Norwich		
October 17th	6.30 p.m.	Assembly Rooms, Theatre Street, Norwich
Nottingham		
October 22nd	6.30 p.m.	Victoria Hotel (Ballroom), Milton Street, Nottingham
Peterborough		
October 16th	6.30 p.m.	Great Northern Hotel, near Peterborough Station, Peterborough
Preston		
November 6th	6.30 p.m.	Chamber of Commerce (Board Room), 49A Fishergate, Preston
Sheffield		
October 23rd	6.30 p.m.	Grand Hotel, Leopold Street, Sheffield
Southampton		
October 2nd	6.30 p.m.	Civic Centre, near Southampton Central Station, Southampton

Details of meetings being arranged by The Institute of Chartered Accountants in Ireland and The Institute of Municipal Treasurers and Accountants have yet to be announced.

Equipment Notes and News

Space-saving Filing Cabinets

A VERSATILE filing cabinet which is made up of snap-together frame sections and can be assembled in about fifteen minutes is the Scanex cabinet, containing five revolving tiers and holding up to 3,000 files. Lockable doors can be added or replaced by side panels as required, and the doors fold flat against the cabinet when open. It can also be mounted on castors.

The circular tiers revolve silently on sealed-in bearings and rubber seals are fitted to reduce the noise when doors are used. It is estimated that the floor area required is only 12 sq. ft against about 37 sq. ft for the equivalent filing volume in four-drawer cabinets.

ADM Business Systems Ltd, 64–66 King Street, London W6.

Hands-free Telephoning

A TWO-WAY telephone and loudspeaker and amplifier unit, known as 'Speak-R-Phone', permits telephone conversations to be carried out without the need to hold the receiver.

Fully transistorized, the unit operates as soon as the handset is placed into the holding cradle and enables the user to search for documents, make notes, or even walk about the office whilst carrying on a conversation with the caller.

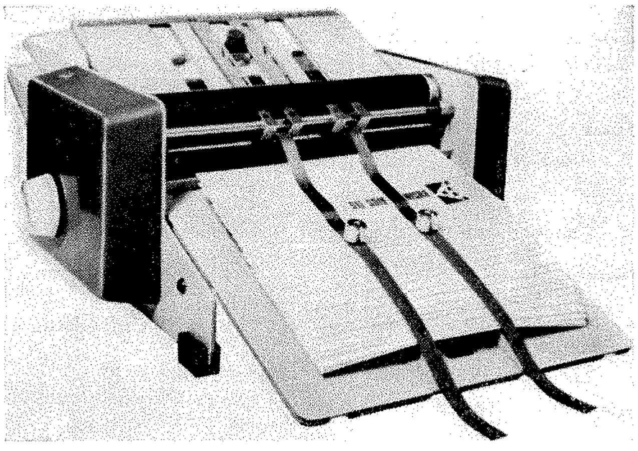
Priced at 12 guineas, it requires no maintenance other than the periodic replacement of a small battery and is guaranteed for one year.

B & Y (Gates) Electronic Developments Ltd, Gates House, New Broadway, London W5.

Small Folding Machine for the Office

SMALL compact but rugged in operation, the Multi-Fold is available through any office equipment retailer. Only 23×15½×7 in. in size it will nevertheless fold sheets up to 9¼×16⅝ in. in size at speeds of up to 12,000 an hour.

Substituting eighteen pairs of hands in your post or dispatch room it can fold statements, invoices, receipts, correspondence, direct mail or circulars and folding tables are colour coded so that it is claimed to be extremely



Multi-Fold machine for office folding.

simple to operate. There is also a built-in jogger to enable paper to be 'knocked-up' suitable for folding in a few seconds. Paper feed is fully automatic as the machine is electrically operated, and is capable of handling papers from 9 lb. airmail up to three-sheet card.

Business Aids Ltd, 13–15 Wenlock Road, London N1.

Continuous Tone Reflex Papers

A NEW range of papers designed to give photographic quality results similar to that produced on Ilfobrom papers, have been introduced by Ilford Ltd, for use on their reflex or photo stabilization machines. Called LR Ilfoprint, these papers are available in single or double weight with glossy, varied-matt, or velvet stipple finish in four evenly spaced contrast grades.

Much faster than the conventional Ilfoprint projection paper, this projection speed paper must therefore be used in darkroom conditions with a 902 (light brown) safelight. But it means that photographic quality prints can be produced in seconds with the activator/stabilizer process as against conventional photographic techniques which include washing and drying for processing times of 30/60 minutes.

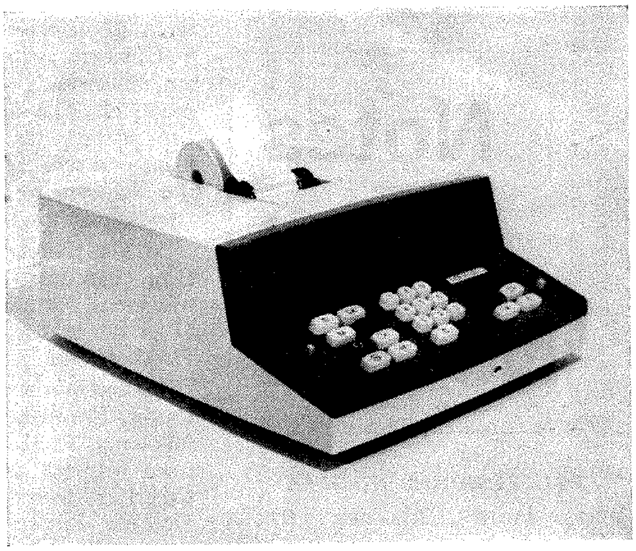
Ilford Ltd, Ilford, Essex.

Electronic Calculators

TWO new calculators, one with a print-out claimed to be virtually noiseless, and the other with an illuminated display have recently become available. The printing model, the Sofia 25 sells at £475 whilst the display model, the Sofia 22, is priced at £385 and both are claimed to be the cheapest calculators of their kind.

The keyboard is of the standard adding/calculating machine layout and is the same for both machines so that an operator can switch from one to the other if so desired.

Sofia Electronic Calculators Ltd, 213–215 Gloucester Place, London NW1.



Sofia 25 print-out calculator.

Dual Currency Conversions Start

THE Post Office are now accepting letters and parcels franked in all-pence values instead of shillings and pence. Franking machines can therefore be converted immediately to all-pence values and these dual currency machines will be usable now and after decimalization in February 1971 without further modification.

A new stamp on Roneo Neopost franking machines has been designed by Mr Stuart Rose, F.S.I.A., who has been the typographical adviser to the Postmaster-General since 1963. As Neopost have nearly forty thousand machines in the field, it means that they can start on conversion now and will in fact replace existing machines with the new machines which have been factory converted. New users will automatically receive these machines when they purchase or rent.

Roneo Neopost Ltd, Lion House, Red Lion Street, Richmond, Surrey.

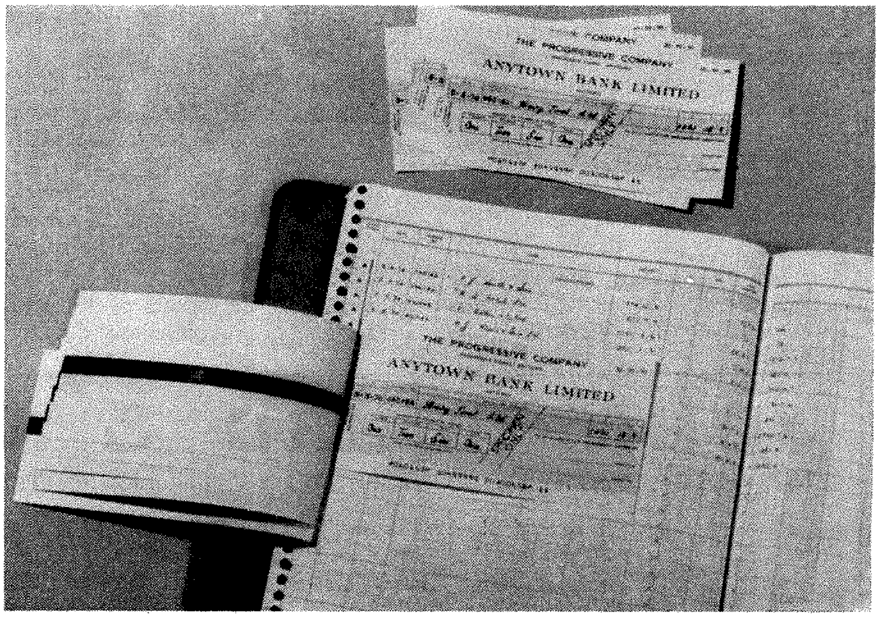
Cheque Payment Method

BY using a flat metal board edged with studs down the left-hand side called a 'collator', which is slipped into the appropriate place behind a page of a cash payments journal, one single writing will produce both a cheque and a journal entry.

This is done by using pre-perforated cheques which are overlapped one line at a time down the page, and the back of the cheque is strip coated with carbon at the position where the entry is made (*see picture*).

By this method cheques and journal will always agree, an analysis of cheques can quickly be made and there are no counterfoils to complete, thus saving time.

Kalamazoo Ltd, Northfield, Birmingham 31.



Notes and Notices

PROFESSIONAL NOTICES

Messrs Barton, Mayhew, Ryder & Co announce that from July 1st, 1968, the address of their Johannesburg office is Standard General House, 12 Harrison Street, Johannesburg.

Messrs Brading, Barber & Co, Chartered Accountants, of 9/10 West Mills, Newbury, Berkshire, announce that Mr Brian Goodwin, A.C.A., and Mr Simon Thomas James Brock, A.C.A., were admitted into partnership on July 1st, 1968.

Messrs Down, Kilner & Co, Chartered Accountants, of 22 City Road, London EC1, announce that Mr L. A. Austin, F.C.A., who has previously been a manager with the firm, has been admitted into partnership with effect from July 1st, 1968.

Messrs Fuller Jenks Beecroft & Co (formerly Fuller Jenks Wise & Co), Chartered Accountants, announce that the address of their Manchester firm is now Astley House, Quay Street, Manchester 3, and that Mr K. S. Moore, F.C.A., has retired from that firm but remains a partner in the London firm. They also announce that Messrs J. Heaford, F.C.A., K. S. Beecroft, F.C.A., D. W. Eckersley, B.COM., F.C.A., and B. W. Taylor, B.A.(COM,.) A.C.A., have been admitted into partnership in their Manchester firm.

Messrs Halliday Pearson & Co, Chartered Accountants, of 11 Spring Gardens, Manchester 2, and Messrs Lysons, Haworth & Sankey, Chartered Accountants, of Canada House, 3 Chepstow Street, Manchester 1, announce that they have merged their practices. The new partnership consists of the partners of both the above firms and will continue to practise for the time being under the existing names and from the existing addresses.

Messrs Price Waterhouse & Co (European firms), announce the admission to partnership of Mr D. G. M. O'Kelly in the Swiss firm and Mr D. M. Knapp in the Dutch firm.

Messrs Whinney Murray Ernst & Ernst, European firm, announce the following admissions to partnership from July 1st, 1968: Mr Dennis M. Constant in their Brussels office, Mr Donald E. Steck, C.P.A., in their Milan office and Mr Anthony C. A. Myers in their Paris office. All have been on the staff for some years. Mr Myers was articled with the London office of Whinney Smith & Whinney.

Messrs Whinney Murray & Co, Beirut, announce that Mr G. J. C. H. Maksud ceased to be a partner in the firm from July 5th, 1968.

APPOINTMENTS

Mr D. S. Harrison, F.C.A., and Mr M. G. D. Golding, F.C.A., have been appointed chief accountant and deputy chief accountant respectively of Wm Cory & Son Ltd.

Mr D. S. Harrison

Mr J. J. Trigwell

Mr J. J. Trigwell, F.C.A., has been appointed to the board of David Charles Ltd as group financial director.

Mr I. G. Adams, F.C.W.A., has been appointed to the board of Horseley Bridge Ltd, as group financial director.

Mr David G. Bailey, A.C.A., has been appointed group planning director of Rockware Group Ltd with effect from August 1st next.

Mr R. E. Burrows, M.A., F.C.A., A.C.W.A., group chief accountant of Alenco Ltd, has been appointed an additional director of the company.

Mr John Currie, C.A., has been appointed a director of Photo-Me International Ltd.

Mr C. Dansey, F.C.A., has been appointed group budget controller of The Delta Metal Co Ltd.

Mr D. J. Harbut, A.C.A., chief accountant of the British Printing Corporation Ltd, has been appointed to the board of Marshall Morgan & Scott Ltd.

Mr Derek Henry, A.C.W.A., has been appointed to the board of E. G. Clarke & Son Ltd.

Mr H. A. Luhrs, C.A., has been appointed secretary of Cope Allman International Ltd. He was formerly secretary of Lloyd's Packing Warehouses (Holdings) Ltd.

Mr Donald Mear, B.A., A.C.A., formerly director and general manager of Willing Lumi-Neon Ltd, has been appointed to the board of Willing & Co Ltd.

Mr Alexander D. Stark, C.A., has been appointed director and group general manager of Charles Roberts & Co Ltd, and Mr Alan B. Griffiths, A.C.A., has been appointed chief accountant of the company.

Mr J. E. Williams, F.C.A., previously general manager and finance director of British Sisalkraft Ltd, has been appointed executive vice-chairman and finance director of the company.

NEW CHAIRMAN OF INLAND REVENUE

Sir Arnold France, at present Permanent Secretary of the Ministry of Health, has been appointed Chairman of the Board of Inland Revenue in succession to Sir Alexander Johnston, who retires at the end of October.

JOHN FOORD & COMPANY
137 VICTORIA STREET, LONDON SW1 Telephone 01-834 2002 (4 lines)
REVALUATION OF ASSETS
WORKS, FACTORIES, PLANT & MACHINERY, Etc.

DOUBLE TAXATION

U.K. – France

The Double Taxation Convention with France, which was signed on May 22nd, 1968, was published on July 16th as a schedule to a draft Order in Council.

INCREASE IN REDUNDANCY LEVY

Contributions by employers to the Redundancy Fund are to be further increased under a draft order which was laid before Parliament on Wednesday of last week by Mrs Barbara Castle, Secretary for Employment and Productivity.

The increases take effect on September 2nd. The employer's weekly contributions are to be raised from 10*d* to 1*s* 3*d* for men and from 5*d* to 7*d* for women. In the Budget statement it was stated that contributions would rise to 1*s* a week for men and to 6*d* for women.

TEACHING AS A CAREER

A short residential course is to be held at the Royal Holloway College, Egham, Surrey, from Wednesday, January 1st, to Sunday, January 5th, 1969. The course, which is being sponsored by The Institute of Chartered Accountants in England and Wales, is intended primarily for members who are considering entering the teaching profession but it will be of interest also to those who join the staff of a college in September 1968.

Further details are to be announced in due course.

SOUTH ESSEX SOCIETY OF CHARTERED ACCOUNTANTS

At the first annual general meeting of the South Essex Society of Chartered Accountants held recently, Mr E. H. R. Martin, F.C.A., was elected as President of the Society for the ensuing year in recognition of the service he had given the Society during its inaugural year. Mr C. H. I. Chown, F.C.A., of Ilford, was elected chairman and Mr K. E. Carr, F.C.A., of Chelmsford, was elected vice-chairman.

Following the formal business, the presentation of a cash prize was made to a student of the Mid-Essex Technical College for his design of a branch crest.

SOUTHERN SOCIETY OF CHARTERED ACCOUNTANTS

New President

Mr F. W. Bright, F.C.A., is the new President of the Southern Society of Chartered Accountants.

Born at Newport, Isle of Wight, and educated at Hurstpierpoint College, Mr Bright subsequently served articles with the late Mr F. M. Lintott, F.C.A., principal in the firm of Carter, Clay & Lintott, Chartered Accountants, of London. He was admitted to membership of The Institute of Chartered Accountants in England and Wales in 1932 when he commenced to practise on his own account in Newport and Worthing. In 1948 the practice was amalgamated with that of Coles, Mair & Co, in the Isle of Wight, of which he is senior partner.

Mr Bright has served on the Committee of the South Eastern Society of Chartered Accountants since 1955 and subsequently on the Committee of the Southern Society.

His other activities include membership of the Isle of Wight County Planning Committee since 1948, being Chairman of its two sub-committees; immediate Past-President of the Isle of Wight Chamber of Commerce, and for many years he has been honorary secretary and treasurer of the Management Committee of the National Trust in the Isle of Wight.

Other officers elected for 1968–69 are:

Vice-President: Mr J. F. English, F.C.A.

Secretary: Mr M. G. Lickiss, B.SC.(ECON.), F.C.A., Thornton Baker & Co, South Western House, Fir Vale Road, Bournemouth.

Treasurer: Mr B. A. Apps, F.C.A.

DECIMAL BOARD'S FIRST ANNUAL REPORT

The Decimal Currency Board see their role as setting the general framework within which individual organizations must make their own decimalization plans, the Board say in their first annual report published last week (H.M.S.O., price 5*s* 6*d*). The report, which has ten sections, covers the period from the Board's appointment in December 1966 to March 31st, 1968.

The report points out that the Decimal Currency Act 1967 does not settle how the decimal system will be introduced and therefore further legislation will be needed to determine such matters as how £ *s d* references in legislation, contracts and the like should be converted into decimal currency. During the next year, the Board hope to examine the shopping patterns of the change-over period and to determine policy on such matters as conversion tables and dual pricing.

In the section dealing with the 'biggest physical task of the change-over' – replacing or converting the five million machines affected – the Board say that because in the business world the competitive advantage lies with the firm which decimalizes early and because not all machines can be fully converted in a short space of time before and after D-Day, users would do well to look carefully into the merits of 'pre-conversion' schemes.

Referring to tax allowances, the report states that it has consulted the Inland Revenue about expenditure allowances incurred in making the

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change-over. Expenditure on 'non-machine' costs such as training is normally eligible for full tax relief. Expenditure on new machines is a capital charge and eligible for normal tax allowances. There has, adds the report, been some misunderstanding about the tax relief position and the Board hope to publish a statement on this aspect in due course.

During the period covered by the report the Board's senior staff had talks with over one hundred different organizations and its engineering staff visited almost one hundred machine companies. Between July 1967 and March 1968, members spoke at eighty-eight conferences and seminars for senior and middle management with a total audience of over six thousand.

INSTITUTE OF INTERNAL AUDITORS

Vice-President for West Europe

Mr S. S. Ross, chief internal auditor of Joseph Lucas (Industries) Ltd, has been elected Regional Vice-President of the Institute of Internal Auditors in West Europe for 1968–69.

Prior to joining Joseph Lucas in 1957, Mr Ross was joint secretary and director of organization and methods to the Government of Bengal, and adviser to the Government of Malaya. His experience in the Far East included special assignments for the Governments of Hong Kong, Singapore and Sarawak.

This year, Mr Ross will be Chairman of the Institute's Ninth West European Regional Conference to be held at the Europa Hotel, London W1, from October 30th to November 1st.

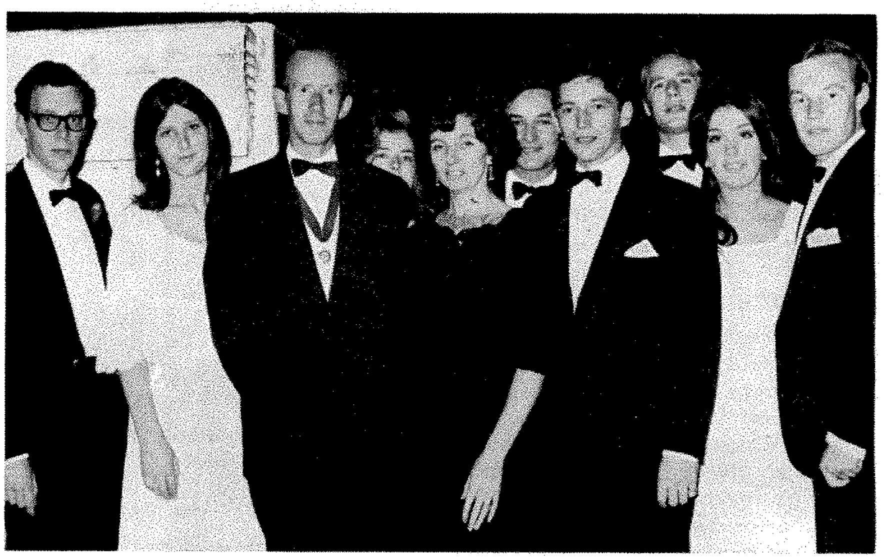
ECONOMIC CONDITIONS OVERSEAS

Three booklets in the series of annual economic surveys of developments and prospects in member countries of the Organization for Economic Co-operation and Development have recently been published, covering Austria, B.L.E.U. (Belgium-Luxembourg Economic Union) and Sweden. Copies of the booklets are obtainable from H.M. Stationery Office, price 5*s* 6*d* each.

BRISTOL STUDENTS' ALL-NIGHT BALL

Three hundred and fifty members and guests of the Bristol and District Chartered Accountant Students' Society attended a highly successful 'All-night Floating Ball' on board the P. & A. Campbell steamer *Westward Ho* last Friday and Saturday week. Organized by the Bristol Students' Society, the ball was attended by representatives from Student Societies from Cardiff and as far away as London and Birmingham, as well as by students from other professions.

The steamer left Avon Gorge, Bristol, at 9.15 on Friday evening, returning at 8.15 the following morning. With dancing provided by four bands including a beat group, a steel and jazz band, members and guests sailed down the coast to Weston-super-Mare then across to Penarth and to Barry returning along the coast to Cardiff before cruising up the Channel to Avonmouth and Bristol. An additional attraction during the trip was the showing of comic and cartoon films in the early hours of Saturday morning which also 'provided a rest period'.



Some of the guests aboard the steamer *Westward Ho* *Left to right:* Front Row: Mr G. R. Clifton, Miss R. Tomkins, Mr R. C. Bennett, F.C.A. (President, Students' Society), Mrs R. C. Bennett, Mr P. Collins, F.C.A. (Vice-President of the Society), Miss R. Deverson and Mr R. W. Dawes, A.C.A. Back Row, *Left to right:* Miss M. Nankwell, Mr M. Q. Michaels, B.Sc.(Econ.), and Mr C. J. Yeandle, Secretary of the Society.

DUN & BRADSTREET REGISTER

The complete 1968–69 edition of the *Dun & Bradstreet Register*, now available, comprises five geographical volumes and lists more than 200,000 United Kingdom businesses with information including confidential credit ratings, full name and address of each company, trade, capital, proprietors and associates, and bankers. The *Register* is supplemented weekly throughout the twelve-month subscription period giving important changes as they occur.

Subscription rates are available from Dun & Bradstreet Ltd, P.O. Box 17, 19 Adelaide House, London Bridge, London EC4.

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Farmhouses and Tax

HARD cases make bad law. That philosophical dictum no doubt sustained the Inland Revenue when they insisted on cutting down the agricultural allowance which was claimed in *Lindsay v. C.I.R.* (32 A.T.C. 1). Mr LINDSAY was tenant of a farm which he farmed through agents. There was only one house on the farm and it was occupied by a full-time farm employee; Mr LINDSAY lived elsewhere. Although only a tenant, Mr LINDSAY spent £352 on providing a new scullery at the house for the use of his employee. He claimed an agricultural writing-down allowance in respect of this £352 under the then equivalent of what is now section 68 of the Capital Allowances Act 1968. Section 68 (3) provides:

> '(3) No expenditure shall be taken into account for the purposes of this section unless it is incurred for the purposes of husbandry or forestry on the agricultural or forestry land in question; and
>
> (*a*) where the expenditure is on a farm-house, one-third only of the expenditure shall be taken into account, or, if the accommodation and amenities of the farm-house are out of due relation to the nature and extent of the farm, such proportion thereof not greater than one-third as may be just, . . .'

Now it is as plain as a pikestaff that in enacting those words in paragraph (*a*) the Legislature had in mind a farm-house in the sense of the house occupied by the farmer himself. Nevertheless, the Inland Revenue restricted Mr LINDSAY's allowance to one-third on the ground that his shepherd's house was the farm-house.

It seems now that the Inland Revenue have been hoist by their own petard. Professor EMIL KORNER and four members of his family farmed the Elrig estate in Wigtownshire. The whole estate covers 1,817 acres, of which 1,768 acres are farm land. Some 212 acres were let and the KORNER family farmed the rest. There were six houses on the Elrig estate; four were occupied by employees of the KORNER family, one by the tenant of the 212 acres, and the sixth – the House of Elrig – has been lived in by Professor KORNER and Mrs KORNER, one of his partners. The Professor lived there at the request of his three children, the remaining partners, and from there he managed the farming. The three other partners did not live there but visited the house during holidays. The Professor spent an hour a day on farm business although on odd occasions he spent up to five or six hours a day on that business. Mrs KORNER, a farmer's daughter, gave advice. The House of Elrig has some twenty-two rooms, including four bathrooms, all of which were fully furnished. Only two rooms were actually used for business purposes.

The partnership claimed to deduct the full cost of the rates, repairs, maintenance and insurance of the House of Elrig as business expenses. The Inland Revenue offered to deduct one-tenth of them, which was agreed as being a fair proportion for the actual business use. The Revenue relied on section 137 (*a*) (*b*) of the Income Tax Act 1952. The Special Commissioners were not satisfied that the House of Elrig was 'the farm-house'. However, accepting that it was the farm-house and was therefore included in the land occupied for the purposes of husbandry, they nevertheless held that section 137 (*b*) required them to disallow expenditure on private or domestic purposes, and they disallowed nine-tenths accordingly.

Last month the partnership appealed successfully to the Court of Session which held that the Special Commissioners had erred in disallowing nine-tenths; the whole was deductible. The Court pointed out that section 137 (*b*) was 'subject to the provisions of this Act'. Sections 124 (1) and 526 (1), were among those provisions. Section 526 (1) provides that:

> ' "farm land" means land in the United Kingdom wholly or mainly occupied for the purposes of husbandry . . . and includes the farm-house and farm buildings, if any, and "farming" shall be construed accordingly'.

This definition is a throw-back to section 10 of the Finance Act 1941 and may have been retained in error since the passing of section 31 of the Finance Act 1948. The Court held that the definition showed that for tax purposes the farm-house was part of the farm land.

P I B asks the Right Questions

IF there is any single issue on which all men – whatever their political faith – should be united, it is on the need for an effective incomes policy. Ever since the Budget which intensified the upward pressure on prices initiated by the devaluation, it has been clear that the Government's policy of seeking to contain incomes within a 3½ per cent limit would bring it into conflict with the trade unions.

The record to date has not been impressive. In the twelve months to April earnings rose by over 8 per cent, whereas the index of retail prices increased by only 3·7 per cent. No one is as yet clear as to what was the cost of settling the Ford women machinists' strike, or of the recent railway dispute. The Government is preparing for a major clash with the municipal busmen, and the engineers have broken off negotiations with their employers with industrial action almost inevitable.

This, it may well be said, is where we came in – five, ten or even twenty years ago. The problem of enforcing an effective incomes policy is not peculiar to Britain; it is endemic in all the advanced economies of Western Europe and North America.

Future discussion of the appropriate policy will be considerably enlivened by the Third General Report of the National Board for Prices and Incomes (H.M.S.O., 7*s* net) which reviews both its own activities and, more to the point, those of the Government on prices and incomes during the period August 1967–July 1968.

It is all too easy to assert, as has been widely the case, that Mr AUBREY JONES does not seek to make friends when making out his case. There is truth in the observation that in this area of applied economics, an ounce of practice is worth a ton of theory. In short, anyone who formulates a policy for incomes must pay more than passing regard to practical considerations such as the political climate.

Mr JONES would doubtless aver that what is needed on this issue is less politics and more action. And who is to gainsay him? The latest report argues strongly for a positive policy on price control, not by means of controls and regulations which are quite useless and even in the longer run, harmful but by encouraging competition and the judicious application of 'psychological pressure' on producers. For example, by the threat of a reference to the Prices Board.

The crux of the issue, as the report rightly points out, is that some of the benefits of higher productivity should be passed on to the consumer in the form of stable, if not lower, prices. The gains from higher productivity should not be completely pre-empted by the wage and salary earner in that industry. This is especially the case in industries where technological advances are increasing productivity, such as chemicals, engineering and electrical goods.

The Prices and Incomes Board also considers the case for examining the impact of foreign competition on the prices of domestic products where some measure of import substitution could have been expected. There is also the problem of the multi-product firm which can adjust its pricing policies for different products where some of them are affected by overseas competition and allowing a measure of cross-subsidization.

The P I B is concerned with the apparent insistence by the Government that the nationalized industries should attain their financial targets. The need for financial discipline is not in dispute; rather, it is the means to this end. Higher charges may be justified at times if only to trim demand. More attention should be paid to cutting costs and in some cases indirect taxes could be used to finance a deficit.

However much one may view with concern the further encroachment upon the economy by a powerful interventionist body, there is no question that Mr Jones and his colleagues are at least asking the right questions. The fact of the matter is that there is no longer in the U.K. economy a freely competitive system regulated by the price mechanism. Neither the prices of many goods nor the pay of the majority of the labour force are determined purely by market forces. To meet this situation two possible courses of action are open to a determined Government. Either it must legislate to eliminate the restrictions on prices and the efficient deployment of resources, or it must ensure that if they are to continue, the worst effects of restrictionism are eliminated. For obvious reasons, the P I B is working on the second alternative. The board may make more enemies than friends; its views on certain issues may be wrong or impractical; but the very fact of its existence could have some useful results.

Current Affairs

£900,000 Royalty-waiver held to be Tax Free

THE British-Borneo Petroleum Syndicate succeeded in its appeal to the High Court last week against a decision of the Special Commissioners on the taxability of a receipt of £900,000. The company was incorporated in 1912; in 1922 it sold out its concession and mining rights in Brunei to the Shell Group in consideration of a perpetual royalty of 1*s* per ton of crude oil produced within Brunei by Shell. The company at the same time entered into a keep-out covenant debarring it from prospecting, producing, refining or marketing crude oil or products in or derived from Brunei.

Then, in 1964, the company surrendered its royalty rights to a Shell subsidiary for £900,000, with the provision for the sum to be increased if it was assessed to United Kingdom tax. The Revenue included this £900,000 in the company's 1965 Schedule D assessment, and also in a profits tax assessment for the period ended March 31st, 1965.

On appeal, the Special Commissioners held that the concession was acquired as stock-in-trade, that the royalty agreement made in 1922 was therefore stock-in-trade and had not ceased to be stock-in-trade. Therefore the £900,000 represented the proceeds of sale of stock-in-trade and was accordingly a revenue receipt.

In the High Court the company argued that in 1922 it did not merely sell its Brunei mining concession. By entering into the keep-out covenant it had given up its Brunei trade altogether (thus disposing of a capital asset) and the royalty agreement was therefore a capital asset *ab initio*. Rejecting this argument, Mr Justice Plowman held that on the evidence before them the Special Commissioners were entitled to conclude that the royalties started as stock-in-trade.

The taxpayer's alternative submission was that, even if in 1922 the royalty agreement became part of the stock-in-trade, it had become converted long before 1964 into a fixed asset. The Commissioners had found as a fact that the directors regarded the royalty agreement as having become a permanent income-producing asset. On that evidence they might have found that it had become the principal income-producing asset. There was also the evidence of the balance sheet; after the Companies Act 1948, 'royalty interests' were entered as a fixed asset. In his lordship's judgment the only inference consistent with the evidence was that at some time which could not be pinpointed, but long before 1964, the company had appropriated the royalty agreement as a fixed capital asset, and he allowed the company's appeal with costs.

Claim Against Accountant Dismissed

MR STANLEY TONKIN, of Foxhall Road, Ipswich, and his company, Likegrand Ltd, of Princes Street, Ipswich, were awarded £6,032 damages with costs in the High Court last Friday week.

Mr Justice Nield made the award against Mr James Eric Cox, of Montgomery Road, Ipswich, and his company, Ipswich Credit Traders Ltd, of Soane Street, Ipswich.

The judge ruled that losses made by Mr Tonkin and his company on investments in Ipswich Credit Traders Ltd had been 'induced by deceit' by Mr Cox and the company. But a claim by Mr Tonkin and his company against Messrs Nankivell & Sanderson, Chartered Accountants, of Museum Street, Ipswich, and a senior clerk employed by them, Mr Kenneth Herbert Strutt, of Brunswick Road, Ipswich, was dismissed with costs.

The judge said that the accountants had formerly acted for Mr Tonkin. But he had not sought their advice on the investment in question and their relationship at the time was not one of accountant and client. Mr Strutt had mentioned Mr Cox and his company to Mr Tonkin only in the course of casual conversation.

Mr Tonkin had alleged that the accountants should have advised him that Mr Cox lived in a council house, had no apparent assets, and that all his furniture was on hire-purchase. The judge found that in the circumstances the accountants were under no such duty. He was satisfied that Mr Cox had induced Mr Tonkin to part with substantial sums of money without security and he and the company were liable to Mr Tonkin.

The judge said: 'The Court has much sympathy with Mr Tonkin. He had met with extreme misfortune. He has lost much of his capital, principally because of the dishonesty of Mr Cox. But the accountants and Mr Strutt at no time vouched for the honesty or solvency of Mr Cox'.

Mr Strutt, he added, had no reason to doubt Mr Cox's integrity or solvency.

No S.E.T. for Cable Jointers

THE Pirelli company employs men whose work consists of joining together high-voltage cables. The cables were jointed at Cradley Heath in Staffordshire after being sent there from the company's works at Eastleigh. The work of jointing was highly skilled and quite different from bolting together pre-fabricated pipes. The Industrial Tribunal decided that the work was 'manufacture' for selective employment tax purposes. The Secretary of State for Employment and Productivity appealed to the Queen's Bench Divisional Court who dismissed the appeal and made him pay Pirelli's costs, but gave him leave to appeal.

Betterment Levy Concession

THE intention to impose betterment levy was revealed in a Government White Paper on September 22nd, 1965, and levy eventually became chargeable on disposals after April 5th, 1967. The Land Commission Act 1967 makes provision for the deduction of actual cost, as distinct from eleven-tenths of the current use value, from the proceeds of sale in order to arrive at the amount on which the levy is charged. However, the Act imposed a ban on deducting cost price where the land had been acquired after the publication of the White Paper and before April 6th, 1967.

This latter provision has caused very considerable hardship where private individuals acquired plots of land for their own dwelling-houses during the prohibited period and have subsequently had to sell them for one reason or another. They have been mulcted of betterment levy on a wholly artificial basis.

The many hardships caused have now induced the Minister of Housing to announce a concession. This is in fact, the second concession because in April last he conceded that the actual buying price of plots for single houses should be taken as the base value for levy purposes. Last week he extended the concession for plots sold for any other purpose. If the price paid by him does not exceed £2,500 then the seller will be allowed to take that price as his base value. At present this is an extra-statutory concession, but it is to be made legal as soon as possible.

Profit Formula for Government Contracts

IN a statement in the House of Commons at the end of February, the Chief Secretary to the Treasury, Mr John Diamond, M.P., F.C.A., announced (as reported in *The Accountant* of March 2nd) that the Government had reached agreement with industry on new contractual conditions for placing and pricing non-competitive contracts. He also said that there would be discussions with industry to work out a profit formula which would give contractors a fair return on capital employed while ensuring that outstanding efficiency should be rewarded.

These discussions have now been concluded and agreement has been reached between the Government and industry on the profit rates to be applied to non-competitive Government contracts. The rates will apply to those contracts placed on or after February 26th and for risk work will be 11 per cent on capital employed plus 3 per cent on cost. The rates for non-risk work placed from the same date will be 8 per cent on capital employed plus up to 3 per cent on cost for efficiency.

The Government is at present discussing with industry the establishment of the Government Contracts Review Board. In addition to reviewing the profits earned on individual risk contracts priced under the formula, the board will consider periodically the profit formula and average earnings on non-competitive contracts and compare them with the overall average earnings of British manufacturing industry. In the recent negotiations the Government and industry sought to achieve a formula yielding over the next three years an average return of 14 per cent on capital employed. The Review Board will be asked to make an interim report within twelve months on some of the complex accounting issues which have a bearing on this agreed target. Meanwhile the Government's present accounting conventions will continue to apply, subject to any agreement which may be reached with industry on any particular point.

Rent is Rent

LITTLEWOODS Mail Order Stores occupy a shop and office premises at Jubilee House, Oxford Street, London, the commercial rack-rent of which would be £60,000 per annum. Before 1958 the company held a ninety-nine-year lease of the premises at a rent of £23,444 which it paid to the then freeholders, the Oddfellows Friendly Society. In December 1958, when there was still eighty-eight years of the lease to go, a subsidiary of the company – Fork Manufacturing – acquired the freehold. The Oddfellows became the lessees of Fork at a rent of £6 per year and Littlewoods became tenants of Oddfellows for twenty-two years at £42,450 a year. At the end of the twenty-two years, Littlewoods will cease to pay rent and will have control of the freehold through its subsidiary.

Littlewoods deducted the £42,450 rent charge in computing its profits, but the Revenue resisted this and argued that only £23,000 was deductible because the additional £19,000 was money spent on the acquisition of a capital asset – the freehold. A Littlewoods' appeal, dismissed by the Special Commissioners, was made to the High Court where on July 22nd, reversing the decision of the Special Commissioners, judgment was given in Littlewoods' favour with costs against the Inland Revenue.

Mr Justice Plowman said he could see no reason to

This is My Life

by An Industrious Accountant

WE recently held another meeting of Accounts Department section heads to consider our staff development programme. A recent discussion had indicated a loss of touch with modern technological terminology – the vogue jargon of the whiz-kids among economists – and we wanted to talk it out.

It was an argumentative session. In the retail trade, it was generally conceded, ruts were frequent and we accountants tended to enjoy our comfortable stability in them. Moreover, we lacked the opportunities and challenges inherent in the scientific era of electronics and plastics, North Sea gas and computers. We belonged to the humdrum strata which worked away without fireworks, glory or honour. We were, intellectually speaking, the rank and file.

Thus far we were unanimous; but then the sparks began to fly. What remedial measures could be taken to restore our prestige status? How could we re-invigorate our flagging expertise?

The departmental accountant had a prompt answer: more higher-executive education, he advocated. There were colleges in the United States which provided twelve-month courses of intensive industrial management training; others nearer home gave three months' residential schooling. Why not plan to send out our senior men in rotation? He'd volunteer to go first to test out the more difficult problems (preferably at Harvard) he offered, with the air of Taillefer charging alone on the shield-wall at Hastings. All expenses paid, naturally, plus a cost-of-living bonus. The pay-off would be colossal in knowledge of new techniques and....

I was tempted to tell the self-centred D.A. that he'd scarcely be missed since he invariably delegates every task he can possibly get rid of, but I hadn't a chance to speak. The internal auditor interrupted that the cost would be prohibitive and that it was highly unlikely that anything useful would be brought back. All that sit-and-listen stuff was a lot of bull which just produced verbose complacency. Maybe we should seek advice from consultants?

The office manager cut into their quarrel to say that the younger generation had it soft in all these laid-on courses. With increasing international trade and professional collaboration, the accountant of tomorrow needed linguistic fluency to enable him to talk freely with foreign colleagues, entrepreneurs and fiscal experts. He himself was arranging two crash courses in German and Italian – 'speak it like a native in twelve easy lessons' – which we were welcome to join. Gruelling mental concentration, of course, but an enriching reward for dedicated chaps.

The financial accountant said wistfully that these foreign johnnies couldn't speak their own lingo half the time – they'd never cottoned on to his French, anyhow. Personally, he had decided to do a thesis on industrial cash-flows for the Joint Diploma in Management Accounting Services. Amid the congratulatory buzz he said modestly that it was nothing really – just a matter of putting figures together. The only drawback was that his next-door neighbour had just done a Ph.D. course and now everybody addressed him as doctor; why couldn't our people dig up some decent title like 'director' or 'grand master' or something? That 'J.Dip.M.A.' was such an infernally clumsy plaster.

I offered sympathetically to consider leave-of-absence, plus out-of-pocket refunds, for anybody anxious to attend specific lectures or week-end courses, but I felt that wider reading could be a help. Many chaps never read professional or technical publications that were available. They needed to be business-orientated even in leisure hours.

This view was heatedly rejected; Costs said he always read *The Accountant*, naturally, but he had mental indigestion from trying to absorb some of the glib superficialities which often appeared elsewhere. What about seconding him for six months to some continental store as assistant accountant to get the hang of A.T.V. and so on? Plus his friend, the credit controller, to study systems and methods of customer encouragement? This suggestion was seen as an invasion of their prerogative by both the financial accountant and the internal auditor, both prompt in barbed repartee, so amid a testy flurry of disagreement we adjourned for tea.

dissect the £42,450 a year in the way suggested by the Crown. Since the company had no right to occupy the premises after December 1958, except on payment of the £42,450 a year, it was difficult to see why that sum should not be properly deductible. Littlewood's scheme of exchanging one capital asset for another of equal value, and paying a higher rent for a shorter period was commercially sound (*Littlewoods Mail Order Stores Ltd v. McGregor*).

Conservatives' Wealth Tax Proposals

LARGE concentrations of wealth in the hands of a minority are economically undesirable and socially divisive. From such basic assumptions the authors of a new Bow Group memorandum, *Cutting the Cake*[1], make out a case for shifting the weight of taxation from income to capital.

The main proposals involve the introduction of two new taxes. The first would be a progressive tax on transmitted wealth to be levied on the amount received in legacies or gifts by an individual during his lifetime. The second is a progressive tax on transmitted wealth only which would be composed annually. The object of the first tax is to encourage the redistribution of large estates; the second to encourage the effective use of inherited wealth.

There would, in addition to the foregoing, be an annual tax on the cumulative value in excess of £10,000 of all assets received since 1945, less all legacies and gifts made since then, and 5 per cent for small gifts for which there are no records. Short-term capital gains should continue to be treated as income and some form of betterment tax on increases in the value of land consequent upon the grant of planning permission should be retained.

In exchange, the authors suggest a reduction in surtax rates by means of a rebate for 'proven savings' out of income which would be an incentive to individuals to create wealth. Public companies would be required to set aside a proportion of gross profits – at least 5 per cent – for accumulation for the benefits of their work people.

---

[1] The Bow Group, 240 High Holborn, London, WC1. Price 5*s*.

Less Guesswork in Sales Price Determination

by R. P. WRINCH, B.A., F.C.A.

The method of sales price determination described in this article has been used in a large engineering concern for the past five years and in the author's experience has given better results than more conventional methods.

THE basic idea of pricing policy is to determine the highest price the customer will pay for the volume of sales the seller requires. Market research is well known to help with this problem but this is seldom applicable in the jobbing industry. Products are so diverse that a salesman often cannot suggest a price merely by looking at the drawings and specifications.

Product analysis pricing, the method developed by Jaques and Brown of the Glacier Metal Company, while theoretically sound, is not known to have been used outside their own organization, and is possibly not practicable for products of very diverse design. The method here described employs costing and is intended for use when more direct methods are not available. It is based on four assumptions:

(1) That where competitors' delivery, reliability, quality, etc., are the same, the market price is the lowest price that a buyer can persuade one of the competitors to accept.

(2) That the enterprise, to survive, must be efficient enough to earn a profit at market price.

(3) That the market price must, in the long run, reach an average level which allows efficient manufacturers to earn a sufficient rate of return on their capital employed. A sufficient rate of return (S.R.) is defined as that which is low enough to deter new competition yet high enough to make it worth while for existing businesses to continue replacing plant and stay in business. Thus a higher rate of return would attract competition and force prices down, while a lower one would force out weaker existing competitors until prices came up again.

In practice, of course, the market price varies around this theoretical level and only actually on it for short periods when supply and demand are at a long-term equilibrium.

For simplicity, it is here assumed that the S.R. is a single figure. In fact, there are two relevant figures: that which is high enough to persuade those in business to remain in it, is usually lower than that which would attract new competitors. To fit sales price to market price, the lower figure is used in lean times and the higher figure in boom times.

(4) That facilities vary in different firms. While all have to be generally efficient, only those whose manufacturing facilities are best suited to each particular job will be able to earn the S.R. consistently at the market price for that job.

To determine sales prices, it is also assumed (*a*) that the firm is efficient enough to stay in business; (*b*) that it has manufacturing facilities suitable for the job in hand; and (*c*) that supply and demand are at their long-term equilibrium level. These further assumptions may be later discarded if desired.

It follows, on average and in the long run, that if sales prices are built up by adding to costs a profit margin that will earn the S.R. it should be possible fully to employ the manufacturing facilities at an economically viable level at those prices.

The basic difference between this cost-based approach and the conventional one is that the calculated sales price is regarded as a first approximation to the market price. This affects the manner in which the costs are estimated, as described below.

Capacity budgeting

The filling of the manufacturing facilities to an economically viable level needs to be explained as it means something very specific. It is clearly inefficient to run a works at 20 per cent – it is superefficient to run it at 100 per cent – of capacity. Being efficient enough to stay in business must be the guide to the costing process – costs should be estimated on output budgets which are believed to be efficient. Conventional systems base their estimates either on past achievements or on future expectations. Such budgets vary with the business conditions at the times on which they were based.

The present approach demands a detailed knowledge of the firm's capacity and here account must be taken of the possibilities of shift working.

Optimum capacity is the level of production at which cost per output unit is lowest. Where expensive equipment is used, this is usually the production obtained from two shifts. (Three shifts would probably be ideal but are usually a practical impossibility.) For some hand operations, where labour is the main cost, it is one shift, since the extra expense of a night shift would exceed the saving from spreading the overheads over a larger output. Week-day overtime may be included where it lowers the costing rate, but Sunday overtime is, on the whole, uneconomic because of the services which have to be made available and the probable lower rate of working.

Budgeted output – commercial capacity

The budgeted output is the output over which the fixed expenses are divided, and it must be an efficient level of utilization of the optimum capacity. This level is that at which, in the long run, costs can be recovered and the S.R. achieved. It is also the level at which, on average, in the long run, the firm may expect to find itself operating, and this is therefore called the commercial capacity.

To estimate this level, it helps to try and see the situation from the point of view of potential new competitors who might be considering entering the field with heavy new investment.

The level of utilization to adopt as commercial capacity, depends on the aforementioned criteria together with subjective judgement. There is almost no data available as to what is an efficient level of utilization of general engineering plant. It may therefore be helpful to consider the experience of the company over a span of, say, twenty years.

Unfortunately, neither physical nor optimum past capacity is generally known in enough detail, and estimations for the future suffer from the usual inaccuracies made worse by the absence of such past data. Estimating future utilization also begs the question it seeks to answer, i.e. efficient firms will, in the long run, get just enough work to enable them to operate on average at commercial capacity. Nor can future utilization be forecast without knowing commercial capacity – just the thing one is seeking to discover.

Therefore commercial capacity must start with an intelligent guess. It was decided that 60 per cent was too low and 80 per cent too high, so we arrived at a figure of 70 per cent. However, these figures included Sunday overtime, so we finally adopted 75 per cent of optimum, excluding Sunday overtime. These guesses may seem arbitrary but they are better than irrelevant figures such as last year's output or this year's expected output, which at best might be as good, and at worst, might be so wrong as seriously to jeopardise sales strategy.

To avoid confusion in dealing with special situations, we listed the reasons why less than 100 per cent utilization might still be efficient enough to allow staying in business. They were:

(*a*) In a chain of operations, capacity might be limited to the capacity of the slowest operation.

(*b*) The saleable mix of work never coincided with the ideal, hence some operations were always under-utilized.

(*c*) Capacity for peak work would be under-utilized at slack times.

It is found useful to calculate two sets of costing rates: those based on commercial capacity form the basis of normal sales prices, while those based on optimum capacity provide a guide for times when orders are difficult to get. (The calculation of optimum capacity costing rates is shown in the illustration opposite.)

A sales price constructed in accordance with the principles outlined above can be adjusted in the light of modifications to the starting assumptions. The choice of 75 per cent utilization as commercial capacity was for plant in general. There were a few cases where considerably lower levels of utilization were economically viable. These are discussed below.

Special situations

When a low level of utilization is expected and yet, because obtainable sales prices are high enough, the S.R. can still be earned, we budget commercial capacity at less than 75 per cent. First, however, we ask ourselves, 'Could we not have made larger profits by installing a smaller physical capacity in the first place and, if so, why did we not do so?'

The only admissible answers to this question are:

(1) When the plant was originally installed, utilization was higher but the market has now shrunk. Subdividing at present was either impossible or would increase costs – in spite of higher unutilization.

(2) Low utilization was expected from the outset but the plant could not be subdivided without increasing costs in spite of higher utilization.

We also have to be satisfied that the limits of the market are such that it is not possible to get more orders and higher profits simply by offering lower sales prices or spending money in other ways. A few examples that have occurred in our own factories will help to make the above points clearer.

A market dries up when a special process becomes obsolete and is only used for spares for plant already sold. Anyone wanting a spare has to come to us for it and there is, in this case, no fear of competition; the market is dying and limited. Here we are restricted in sales prices only by moral considerations and to avoid a reputation for overcharging for spares – which might damage our main business. In this example, the sales prices must meet costs and show a profit on top at the level of utilization expected, even though this must be less than 75 per cent.

A set of heavy and expensive plate bending rolls is an example where low utilization was expected from the outset, and it was first thought that a low commercial capacity should be budgeted. Closer examination showed that the market was wider than had been thought. It was not possible to install rolls with the same capability but of lower capacity, and a cheaper unit was not able to bend plate as thick or as large.

When it was decided to buy this equipment, it was calculated that the S.R. would be earned even though utilization was as low as 30 per cent of optimum. It was thought, wrongly, that basing costs on a commercial capacity exceeding 30 per cent would only mean passing on to customers an unnecessary price reduction.

The mistake was in overlooking the fact that if it paid us to install equipment for a utilization of 30 per cent, it would pay our competitors to do the same. Thus our price policy would encourage installation of several sets of such rolls working at 30 per cent of optimum. It seemed better to base our prices on a higher commercial capacity (which it was expected to reach as a result of the consequently lower prices), thus encouraging competitors to buy rolled plates from us instead of installing their own plant, which would be against both their own and our interests. These examples show the effect of a market-based approach on costs.

There have been other instances where commercial capacity turned out to be higher than our first estimation, such as:

(1) linked processes (i.e. processes which follow each other on the same work-piece, such as a forging press and its heating furnace); and

(2) 'white elephants', i.e. plant which subsequent events caused to be a bad investment.

The treatment of (2) is quite easy. It must be estimated how much, in the light of experience, the plant is, in fact, worth to the company, i.e. the maximum which ought to have been paid for it. The difference between this amount and what was actually paid must be written off, leaving the lesser figure to be depreciated. Commercial capacity should then be budgeted at the ordinary level of 75 per cent. If using the reduced depreciation does not yield realistic sales prices, the plant is still overvalued.

In the case of (1) linked processes, the problem is due to one of the processes limiting the other, there being no way to increase the capacity of the former. This problem is analysed in the following way.

If either process can be used independently (for instance, in the quoted example, the furnace for normalizing or the press for cold pressing), the sales department can try to bring in work which makes more demands on the less used process. The same applies if the processes have to succeed each other on one work-piece but the time ratio differs (e.g. as between a hot pilger for tube making and its furnace).

If, however, the two processes must always succeed each other and in the same time ratios, then they must be regarded as one process for both costing and production control. In other words, low utilization may be considered as efficient for linked processes only where:

(*a*) no conceivable mix of work might allow optimum working of both operations;

(*b*) even if the need arose, the capacity of the overloaded operation either could not, or would not, be expanded suitably;

ILLUSTRATION OF CALCULATING COMMERCIAL COSTING RATES

(1) *Description of cost centres*

(*a*) *Hand operation cost centre*

Fitting work performed on three products, A, B and C in 2,100 sq. ft of the assembly shop. The budgeted mix is:

Product	*Floor area sq. ft*	*Direct operatives per shift*
A	800	10
B	300	5
C	1,000	20
	2,100	35

(*b*) *Machine operation cost centre*

Six capstan lathes and six operatives located in the machine shop.

	Hand operation cost centre	*Machine operation cost centre*
(2) *Test for optimum capacity*		
Budgeted fixed expenses	£19,500	£7,800
Working hours per shift, excluding overtime less estimates for absenteeism and unproductive time (thirty-five hours per man per week)	1,225 hrs p.w.	210 hrs p.w.
	58,000 hrs p.a.	10,000 hrs p.a.
Commercial capacity per shift excluding overtime – 75 per cent	43,500 hrs p.a.	7,500 hrs p.a.
Fixed expense costing rate:		
On single shift excluding overtime	£0·45 p. hr	£1·04 p. hr
On double shift excluding overtime	£0·22 p. hr	£0·52 p. hr
On double shift plus four hours at time and one-third overtime	£0·20 p. hr	£0·46 p. hr
Cost of extra hours in excess of cost of dayshift hours – (assumes rate of 10*s* per hour):		
Night shift	£0·17 p. hr	£0·17 p. hr
Time and a third overtime	£0·17 p. hr	£0·17 p. hr
Time and a half overtime	£0·25 p. hr	£0·25 p. hr
By comparison of fixed costing rate and cost of extra hours optimum capacity is as follows:		
Hand operation cost centre – double shift with overtime up to time and one-third (say, four hours per week)	130,000 hrs p.a.	
Machine cost centre – double shift with overtime up to time and one-half (say eight hours per week)		25,000 hrs p.a.
Commercial capacity is 75 per cent	98,000 hrs p.a.	19,000 hrs p.a.
(3) *Construction of costing rates*		
Optimum		
Variable expenses	£0·69 p. hr	£0·97 p. hr
Fixed expenses:		
Hand operations – double shift plus four hours overtime	£0·15 p. hr	
Machine operations – double shift plus eight hours overtime		£0·31 p. hr
	£0·84 p. hr	£1·28 p. hr
Commercial		
Variable expenses	£0·69 p. hr	£0·97 p. hr
Fixed expenses as above	£0·20 p. hr	£0·41 p. hr
	£0·89 p. hr	£1·38 p. hr

(*c*) this particular plant is not a 'white elephant', to be dealt with accordingly.

Happily, such complexity as described above does not often occur. In the very large factories which comprised the writer's company, only one operation (hot bending of pipes) proved after analysis to be a linked process in the sense described (because there was no space to install more furnaces).

These methods of dealing with special situations have needed somewhat lengthy descriptions but fortunately, in practice, such situations are rare and unimportant.

The situation, where two or more major pieces of equipment which cannot be fully used without overloading preceding or succeeding operations, is so general that it has been dealt with earlier under the heading 'Budgeted output' as one of the reasons for which a commercial capacity of less than 100 per cent optimum may still be efficient.

The case of the total factory floor area limiting the utilization of major pieces of plant to less than 75 per cent is another special case which can be analysed in the manner described above. But the problem often arises of a production department the physical capacity of which depends on the mix of products. In the jobbing industry (where it is most likely that these principles will be of interest), the situation may occur where:

(*a*) the unit of output is man-hours; and

(*b*) the number of men who can be employed and hours that can be worked depends on the product mix.

The only way here is to re-budget and alter cost rates every time there is a significant change in the product mix. (This case is an exception to the principle that re-budgeting is not necessary merely because the expected level of utilization alters.)

Overhead allocation

The sales-price orientated attitude towards cost determination makes itself felt not only in output but in the budgeting and allocation of costs. When allocating items of expenditure, the question to be asked is – 'Would any other efficient manufacturer incur this cost, so that it would be likely to be included in the market price?' The answer to this determines where the expense is charged and how it is budgeted.

If, by mistake, a calculation has offended any of the above principles, the sales department will often soon discover it! For instance, as a result of representations made by the sales department, the writer's company has two different machine-hour cost and selling rates for a 22 ft vertical boring machine. If it is used on work which a 12 ft diameter machine can also handle, the lower cost of the 12 ft machine is charged.

The sales department also caused us to have separate machine-hour rates for hot and cold pressings on a particularly large and special purpose press. The reason was that although the heating is charged separately and pressing is charged at a rate per hour, there are special costs associated with hot bending. There are many other similar examples.

Investment grants

Dealing with investment grants is another problem. The company referred to is entitled to the special 20 per cent investment grant for development areas, and while it had already been decided to deduct the general 20 per cent grant from the plant cost, it was thought that to deduct the special grant also – thus reducing depreciation and also sales prices – would be an unnecessary price reduction.

However, on reflection it was felt that if in order to stimulate growth in development areas, higher grants were necessary than in other areas, this was evidence that there were economic disadvantages in development areas. We reasoned, therefore, that the special allowances were meant to offset these disadvantages, and that price reductions were accordingly, in fact, necessary for us to remain competitive in this area.

Depreciation

It was also found that conventional methods of depreciation sometimes give inappropriate sales prices and new rules of depreciation were developed for the purpose of price determination. However, these will form the subject of a further article.

Incidental advantages

The new system as described turned out to have two other advantages: the first was a detailed knowledge of the company's physical capacity, such as few large enterprises have. It is of considerable value to have utilization statistics expressed as a percentage of optimum capacity and of commercial capacity.

Secondly, the output budget on which the company's costs are based can be described in very few words. This makes for effective communication between accountants, estimators and sales departments. Costs are described as 'based on 75 per cent utilization of two-shift capacity, wherever two shifts are economical'. This description is usually sufficient as the exceptions are negligible. A really precise description needs only a few more words.

Summary

To use costing in sales price determination, every item of cost must pass the test 'Will any efficient competitor have a similar element in his costs?' The overhead element depends largely on the output and allocation method used as a basis of charging. This article has sought to describe a method of choosing an output basis that satisfies the above test, as well as the application of the efficiency test to the allocation method.

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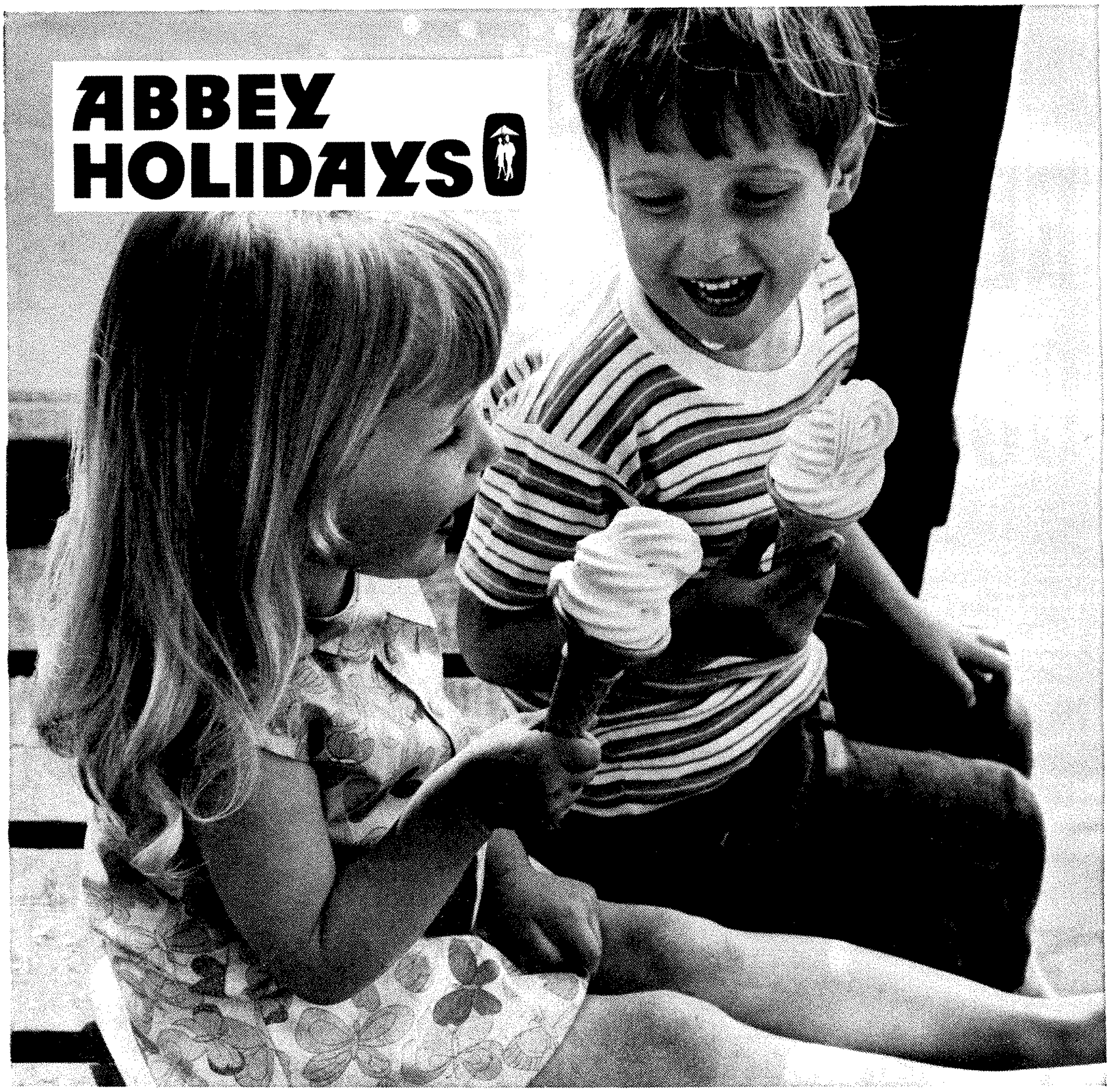

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Overseas Expense Allowances

Retail Price Comparisons

CONTRIBUTED

ACCOUNTANTS are often concerned with the relative scale of expense allowances appropriate to representatives visiting foreign countries.

For a number of years now, the cost of hotel accommodation and restaurant meals in London has compared very favourably with that in most other capitals. However, the effect of devaluation has been to enhance the low-cost position held by London, and conversely to put up the prices of food and accommodation in other centres.

Representatives travelling, for instance, to Paris were well aware, even before November 18th last, that prices were significantly higher there than in London. Devaluation has put up these prices by 15 per cent.

Some assistance in the determination of relative costs of meals and accommodation is provided in an analysis produced twice a year by United Nations statisticians and published in the *Monthly Bulletin of Statistics*. The table in question has the title 'Retail Price Comparisons, to determine salary differentials of U.N. officials'.

The first post-devaluation figures in the series appeared in the April issue of the *Monthly Bulletin*. Two retail price index numbers are given – a total figure and one which excludes housing. Both these index numbers are compared with those ruling in New York. A selection of the indices from the eighty or so quoted, is given below. In the main, the index numbers relate to December 1967.

(New York, December 1967 = 100)

	Total	*Excluding housing or accommodation*
Athens	89	95
Bonn	80	85
Copenhagen	95	102
Geneva	89	95
The Hague	86	—
London	70	77
Montreal	87	91
Paris	102	108
Rome	84	89
Vienna	83	87
Washington	88	90

It will be noted that the index excluding housing or accommodation is invariably higher than the 'total' index. This arises from the fact that the cost of accommodation in most centres is very high indeed and relatively higher than that of the other items which enter into living costs.

Devaluation has made it cheaper for visitors to come to Britain and dearer for Britons to travel abroad. Thus, an American official would find that his dollars go farther in London than in any of the centres quoted above – and, indeed, further than in nearly all the eighty centres distinguished in the *Bulletin*.

In Europe, Rome, Vienna, Bonn and The Hague, are relatively inexpensive cities; Paris is dearer than New York. The position of Copenhagen shown in the table is somewhat misleading since the index quoted is a pre-devaluation figure. Devaluation in Denmark has probably reduced the two indices to about 88 and 95, respectively.

But, of course, firms in Britain are more interested in comparing overseas living costs with those ruling in London. A simple arithmetic transposition therefore yields the following:

(London, December 1967 = 100)

	Total	*Excluding housing or accommodation*
Athens	127	123
Bonn	114	110
Copenhagen	126*	123*
Geneva	127	123
The Hague	123	—
Montreal	124	118
New York	143	130
Paris	146	140
Rome	120	116
Vienna	118	113
Washington	126	117

* adjusted to Danish devaluation.

On this showing, the £ is worth about 13*s* 6*d* in Paris, 14*s* in New York, 17*s* 6*d* in Bonn and 16*s* 8*d* in Rome. The question naturally arises as to how far the figures do, in fact, show relative living costs, and of relevance here are the footnotes to the U.N. table which make the point that

> 'Essentially the indexes are price comparisons of goods and services purchased by international officials in the various cities. Retail prices of about one hundred and twenty items were obtained by independent pricing agents according to specifications detailed for each item.'

It would not be unreasonable, therefore, to apply them to the goods and services generally required by commercial and other representatives.

It should not be overlooked, however, that the footnotes go on to say:

> 'It should be emphasized that since the indexes relate to a group of personnel whose consumption patterns differ from those of the indigenous population, the indexes cannot be considered as reflecting the relationship of the general price levels in the cities shown.'

The Accounting World

Topics of Professional Interest from Other Countries

UNITED STATES

Audits of Management Performance

STOCKHOLDERS may soon expect outside auditors of corporations to provide not only the customary independent opinion on financial statements but also an evaluation of management performance, according to Dr John C. Burton, associate professor of accounting at Columbia University Graduate School of Business, in an article in the May issue of *The Journal of Accountancy.*

Dr Burton points out that the quality of management is of vital importance to a company but is extremely difficult for investors and security analysts to evaluate. In addition, a feeling was growing among the general public that corporate managements should use assets in their control to serve society as well as stockholders.

He states that since an audit examines events that have already taken place in a company and therefore cannot be a forecast, a 'management audit' would not relieve investors from making their own judgements about the future of a company. Nevertheless, such an audit could 'evaluate whether or not management is currently performing its future-oriented functions appropriately', which, according to Dr Burton, consist of its organization control, planning and information systems, and its marketing and production systems. Relative 'quality' points could be assigned to the existence and use of these procedures, and the total used as an index to serve as a basis of comparison with other companies.

Dr Burton finally suggests that additional financial information might be developed to supplement the conventional net income figures commonly in practice today. Such information might include the ratio of operating returns on sales in comparison with the rest of the industry of which the company is a part, the ratio of operating return on long-term capital, and variability of return as compared to the average for the entire industry.

CANADA

Taxation Research

AFTER over twenty years of activity the Canadian Tax Foundation, a body sponsored jointly by The Canadian Institute of Chartered Accountants and the Canadian Bar Association, in its recently published annual report for 1967 is able to record a continuing growth of membership and interest in its activities.

Undoubtedly the publication early in 1967 of the Report of the Royal Commission on Taxation greatly stimulated interest in fiscal issues, not least by virtue of its highly controversial and original proposals. Apart from well-attended conferences, the Foundation's representatives meet regularly with senior officials of the Ministry of Finance to examine the technical aspects of proposed changes in the tax law following the first reading of any amending Bill.

The account of the research activities given in the Foundation's annual report for 1967 makes impressive reading to anyone in the United Kingdom who is aware of the quite appalling gaps in the general knowledge of the economic, social and industrial effects of Britain's present extraordinary tax system. It is well worth the thought that instead of presenting their varied and individual comments to the Chancellor, the leading professional organizations concerned with tax legislation should sponsor a central research agency which, by carrying out fundamental research, could build up a reputation for effective and impartial comment comparable with that of the Canadian Foundation.

SWEDEN

New Tax Laws

THE Swedish Riksdag closed its spring session on May 31st by passing Bills for the introduction of a 10 per cent value added tax as from January 1st next year, and for the establishment of a State development company as from July 1st this year.

The value added tax, which will replace the present 10 per cent turnover tax, is expected to yield about Kr.2,000 million next fiscal year. It will be levied on goods and services and on imports, but not on exports. The tax on investment goods will be abolished, while a special wage bill tax of 1 per cent will be introduced.

The new State development company will have an initial share capital of Kr.18 million. Its primary task is to promote technical innovations and to create improved facilities for developing and exploiting new products, particularly within the State-operated sector.

A board for technical development will be established as from July 1st, 1968. It will take over the tasks now handled by five other bodies. Total State grants to technical research and industrial development will be raised by Kr.22 million to Kr.53 million. The administration of State-owned forests and forest-industry activities will be co-ordinated and reorganized to enable competition on equal terms with private companies.

SWITZERLAND

Duties of Controllers

IN the case of *Kreft S.A. in liquidation v. Hommel & Co*, discussed by Professor Alain Hirsch in *Der Schweizer Treuhander* (May issue), the Swiss Federal Tribunal defined the duties of 'controllers' under the Swiss company law. The Tribunal ruled, *inter alia*, that controllers must ensure that plant and machinery are not shown in the accounts at a figure higher than the purchase price and that they are subject to proper amortization. They must verify that the management has made provision for probable risks in valuing certain assets – a question which requires delicate handling since it goes to the heart of management control. When an asset can only be valued with expert assistance, the controller should himself call in an expert and cannot seek to reduce his responsibilities by saying that he has not the necessary technical, legal or financial knowledge.

The Tribunal confirmed that as controllers are appointed by the general meeting to supervise the balance sheet drawn up by the management and accountants of the company, they must state their criticisms in their report to the general meeting – even if the shareholders are already aware of the position. Even in a one-man company the controller must fulfil his duty in a strict and formal way.

If the financial position of the company is such that the interests of the creditors and shareholders are endangered, controllers must propose the return of the balance sheet to the management in order that the situation may be clearly set out. If the management omits to call a general meeting within six months of the end of the financial year, it is the duty of the controller to do so.

If the management does not expressly inform the general meeting when half the capital is not covered or assets do not cover liabilities, the controller must call attention to these facts. If the management does not inform the Court that assets do not cover liabilities, the controller has no authority to do so nor can he enter an action against the company to force it to inform the Court. The author considers that the controller should threaten resignation in some cases if this would induce the general meeting to take action. It might be, however, that the creditors' interests would be better protected if he remained at his post.

NETHERLANDS

Sampling Methods in Auditing

A EUROPEAN meeting on statistics, econometrics and management science is to take place in Amsterdam from September 2nd to 7th.

There will be a special session on sampling methods in auditing which will deal with, among other things, the rapidly growing international co-operation in industry and commerce, as well as in auditing activities, and the fact that the statistical methods used differ greatly from one country to another. Mr A. van Heerden, a partner of Klijnveld, Kraayenhof en Co, of the Netherlands, and Mr P. C. Louwers, of Philips' Electronic Industries, will present two auditing problems, on the audit of trade debtors, and the audit of wages.

Participants from the United Kingdom, the United States, and Germany have been invited to explain the sampling methods they would use to satisfy auditing purposes.

NEW ZEALAND

New Post for Society's Secretary

MR A. W. GRAHAM, B.COM., F.R.A.N.Z., who has been Secretary of the New Zealand Society of Accountants since 1953, is to take up a new appointment next month as Deputy-General Registrar of the Australian Society of Accountants whose headquarters are in Melbourne. Mr Graham will be joining the Australian Society during an important period in the development of the profession in Australia and, of course, he will also be concerned with the arrangements for the Tenth International Congress of Accountants due to take place in Melbourne in 1972.

As Secretary of the New Zealand Society for fifteen years, Mr Graham has played an important administrative part in the rapid growth of the profession in New Zealand. He has also served as chairman of the Society's Board of Research and Publications responsible for the preparation of statements on accounting and auditing practice and has been the editor of the Society's official monthly journal *The Accountants' Journal* since 1954.

Speaking at a recent meeting of the Auckland and Wellington branches of the Society, Mr Graham expressed the hope that in his new appointment in Australia he would be able to help in bringing the profession in the two countries closer together to their mutual benefit.

Mr K. R. Macdonald, the present Assistant Secretary, who has been largely responsible for the administration of the Society's new educational programme, has been appointed to succeed Mr Graham. The new editor of the Society's journal will be Miss Dorothy Jamieson, who has been assistant editor since 1956.

Profitable Decimal Changeover

THE New Zealand Decimal Currency Board recently held its final meeting when it reported that the cost of conversion amounted to $6·6 million instead of the estimated $14 million.

Credits in the coin account are expected to be $10·5 million, thus making the whole change-over profitable by nearly $4 million.

Budget Proposals

THE Minister of Finance, Mr Robert Muldoon, F.P.A.N.Z., F.C.W.A., F.I.C.A., in his recent Budget speech, told the House of Representatives that the 15 per cent withholding tax on interest payments would become a final tax, except in those cases where the parties concerned were not at 'arms length' or where the investors had a fixed establishment in New Zealand.

The annual exemption on the first sixty dollars of interest would no longer apply to non-residents and exemptions from New Zealand tax would be granted where interest was paid to an overseas pension fund which was exempt from tax in New Zealand. Mr Muldoon said the same level of tax on dividends would be maintained. The maximum rate would be 42·5 per cent less a new rebate of 10 per cent on all taxable dividends. A special tax rebate would be allowed for universal superannuitants.

Excess retention tax would be abolished except in the case of private investment companies, and ordinary exemption on land tax would be increased. Although company taxation would not be changed this year, a composite rate of income tax would supersede the present combination of income and social security taxes, he added.

Under the new Budget proposals ordinary and social security taxes are to be merged into one composite tax, but lower levels of special exemptions will be applied to the composite tax.

The Government's decision to amend the taxation structure follows recommendations made by the taxation review committee in its report last year, but, Mr Muldoon said, the committee's proposal to introduce an 8 per cent general sales tax was not acceptable to the Government in prevailing economic circumstances. Some of the committee's other proposals had not therefore proved to be financially possible.

The Budget's main measures are the merging of the ordinary and social security taxes into one composite tax, the adoption of lower levels of special exemption applying to the composite tax, a cut in insurance and superannuation entitlements and the adoption of an amended rate structure under which the tax rate will now apply at 12,000 dollars instead of the current 7,200 dollars.

The Accountant's Role in Take-over Bids – III

by W. G. MEDLAM, F.C.A.

The effects of merger

IN this section there will be examined:

(*a*) the accounting and financial effects,

(*b*) the tax effects,

and it will show the clear necessity for consultations between the internal accountants and auditors, before proposals come to finality.

29. All too often some of the good effects of merger are dissipated by bad accounting and financial policy. The main problem lies in deciding how to account for the combined effects of merger, and how the new assets and liabilities of the acquired company or concern are to enter the new consolidation. Frequently, little or no deep thought is given to the matter with deleterious effect on the future presentation of accounts. For instance, assets may be expressed in such a way that causes future returns on capital employed to be less than it should be, goodwill in subsidiaries may have to be the subject of consolidation adjustment against parent company reserves instead of being written off in the subsidiary, and similar problems of presentation.

30. Most acquisitions, whether of the concern or of the shares of a company, for cash or for other consideration, fall into two categories. They are either a direct purchase of the recipient company or they are an amalgamation; in American accounting language the latter is aptly expressed as a pooling of interests.

An important point to remember when consolidating the accounts of a holding company, and particularly in the first year of an acquisition, is that the Companies Acts are specific and clear in the requirement that a consolidated account must comply with the Acts as if it were the account of a single company (Companies Act 1967, Schedule 2, Part II, paragraph 18). Furthermore, the directors of the parent are only empowered, when consolidating, to make such adjustments as they think are necessary for the consolidation (Schedule 2, Companies Act 1967, paragraph 17). The word necessary throws out of practice the idea that the parent company directors may, at their discretion, make consolidation adjustments; this is not so, they can only consolidate the accounts of their subsidiaries with the parent company's accounts and they have to keep clear of desirable adjustments which are not completely necessary. This is one of the reasons why most auditors of parent companies insist on examining the working papers of auditors of subsidiary companies and so make up their own minds as to whether adjustments to be made in the parent company's consolidation are in fact necessary, or conversely to find adjustments of subsidiary companies' figures which are necessary on consolidation but which may be outside the knowledge, through group policy, of the auditors of subsidiary companies.

31. For accounting purposes, it is necessary to carry out a careful scrutiny of the merger document, and in certain circumstances it may be necessary for the accountants on both sides to confer with the solicitors drawing up the merger document and so pinpoint the intentions of both parties. All too often documents are drawn calling the merger an acquisition when careful scrutiny shows it to be an amalgamation.

The basic difference between acquisition and amalgamation is whether a new ownership of the constituents is introduced; ownership in this context basically refers to voting or other control as defined in section 154, Companies Act 1948. The following matters should be examined:

(*a*) If the consideration for merger is shares, do the owners of the shares in the acquired company receive interest in the offerer company substantially the same as their previous interests (e.g. there may be renounceable allotment rights exercised to third parties)? If not there would be new ownership and the transaction would be an acquisition.

(*b*) If the consideration for merger is cash for the concern of the acquired company, there is new ownership and the transaction is one of acquisition.

(*c*) Whatever the consideration, if the management of the acquired company is virtually eliminated, the transaction will rank as an acquisition.

The concluding part of a paper presented at the Oxford Summer Course of The Institute of Chartered Accountants in England and Wales on July 12th.

(*d*) If the consideration for merger is shares in the offerer company in exchange for shares in the acquired company and the relative interests remain substantially the same, the transaction could be treated as an amalgamation, i.e. the continuity of two businesses in one composite group, with common policy and administrative methods. Even if a good deal of autonomy still rests with the subsidiary, amalgamation will apply if the financial interests travel through to the new parent.

(*e*) Relative size does not determine the question of acquisition or amalgamation, although if the offerer is vastly larger than the recipient, there is a prima facie presumption of acquisition. This point must be examined.

(*f*) Very few cases are immediately recognizable as either one or the other, and careful scrutiny of documents as suggested in the opening words of paragraph 31 above is necessary. Furthermore, the tax implications may run parallel with the accounting implications, and are discussed in paragraph 38 below.

32. So far paragraphs 30 and 31 might be considered to be accountants' and lawyers' hair-splitting, but the effects travel through to the calculated surpluses of the merger, particularly in regard to the use of reserves and pre-acquisition profits.

There should be held in the forefront of thought, the axiom that a company cannot buy distributable revenue profits, it can only earn them by trading.

Furthermore, in practice it is only lucky chance that puts a price tag on an acquired shareholding exactly equal to the sum of its shareholders' funds as shown by the balance sheet. There is inevitably a goodwill to be accounted for and sometimes it is a negative goodwill. The latter would arise where the net assets of an acquisition were not being fully used to earn a reasonable return, resulting in the net tangible assets value being in excess of the capitalized earning value.

Net tangible assets

33. Discussion on the accounting for goodwill and reserves merits a separate paragraph, therefore this paragraph will deal only with accounting for the net tangible assets.

Accounting policies will not go far wrong if assets are recorded on a basis of being at cost to the group. This simple statement has much behind it, and for the purposes of this paper the expression at cost to the group includes the assets of a subsidiary which have been revalued and the revaluation acknowledged in the accounts. Similarly, the assets of the parent may have been revalued and the revaluation acknowledged in the accounts; in both cases the book value of the assets will be referred to as at cost to the group.

If the price tag of the shareholding is in excess of the acquired company's share capital and reserves there is a positive goodwill. In the case of an acquisition there are two methods of entering the subsidiary's assets into the consolidation, either:

(*a*) carry through the old book value and account separately for the goodwill as an asset thrown up in the process of consolidation, or

(*b*) on consolidation distribute the goodwill over the assets of the subsidiary, on the grounds that the purchase cost to the group, as a group, reflects the amounts paid to former third parties for the acquisition of their assets.

In the case of (*a*) it is usual for parent companies to eliminate the goodwill by deduction from their own consolidated reserves, but if this is not done it would be wise to amortize the goodwill over a suitable number of years. The value of intangible assets, other than know-how, has a habit of melting away with the passage of time.

In the case of (*b*) a convenient method of achieving the distribution is to revalue the assets of the subsidiary before acquisition and thus to eliminate tedious consolidation adjustments of a permanent nature.

The effect of (*a*) is to keep down the total of capital employed and so elevate the return thereon so beloved of investment analysts and others, whilst the adoption of (*b*) keeps the total of capital employed at its gross figure.

34. Whether the transaction is an acquisition or an amalgamation has a bearing on the method of accounting for the assets. In the case of an acquisition, the assets are being accounted for either by entering the group gross, i.e. at the group (or parent) acquisition cost or by entering the group at the former cost to the individual company, with any excess cost of the former shareholding being accounted for as goodwill. Thus, the total of assets plus goodwill will be the measure of consideration given to third parties for those assets.

Naturally, if goodwill is distributed over tangible assets, virtually revaluing them upwards, it will be necessary to reassess the depreciation charge to profit and loss account in sympathy with the revaluation.

In the case of amalgamation, a good but not sole method of accounting is to carry into the consolidation the former book value of the assets (and liabilities) and not account separately for the goodwill; it automatically gets itself eliminated against the parent company's consolidated share capital and reserves. It should be remembered that amalgamation principles will only apply on the consideration being an exchange of shares, not purchase for cash, thus the goodwill figure is lost in the price tag put on the offerer company's shares for exchange purposes.

Goodwill

35. So far the differentiation between acquisition and amalgamation seems to be a lot of fuss about nothing and applicable only to cases where no par value shares can be issued or the offerer's shares command a premium, in which premium the goodwill can be lost.

It is in the true and fair expression of reserves and their availability for distribution that the importance lies. For this purpose a closer look at goodwill is necessary.

It is not proposed to define goodwill; if it occurs in acquisition or in amalgamation it has to be accounted for.

The first concept of a transaction involving assets and goodwill is to treat it under the pay-back principles of capital expenditure. That is to say, there is no profit until the consideration has been extinguished against profits earned. This principle is found in certain mining companies, particularly in the development of new oil concessions. In effect, the offerer acquiring a going concern assumes that, until it has extinguished the whole of its purchase price, however calculated, the corpus of its own shareholding is no better off.

This is probably a fallacious method of accounting for normal amalgamations, because the tangible assets acquired have at least some value to the parent company's shareholding.

The second concept is to carry through the old asset values and throw up a goodwill which can be accounted for in a variety of ways. In an acquisition there is an option for a basis of gross assets or net assets plus goodwill. In the latter case goodwill has to be accounted for.

The third concept is to reduce the premium on the shares offered as consideration and so not account for goodwill.

The fourth concept of goodwill is that it merely represents someone's assessment of the amount assigned to a company's capitalized earnings value in excess of its net tangible assets. And he might be wrong.

The fifth concept of goodwill is that only purchased goodwill should be accounted for in a consolidation, resulting in a worse than meaningless figure paying attention only to the supposed earning power of the acquired fraction of the total consolidated business.

There are other concepts of goodwill but the principles discussed in the next paragraphs usually apply.

If the transaction is an acquisition or an amalgamation and a goodwill is thrown up, it has to be accounted for. Some of the methods of dealing with it are as follows:

(*a*) Reduce the consolidated reserves of the parent company and so eliminate goodwill altogether. Probably the simplest method of all.

(*b*) Carry the goodwill as an asset and so clearly display the historic fact of payment for it. When the value of the payment has expired, it should be written off.

(*c*) Act as in (*b*) but amortize it over a period of years. Accountants generally cannot establish an amortization period for goodwill and it is doubtful if industrialists either are able to establish the period. Therefore careful thought is necessary before the period is acknowledged, particularly by auditors applying true and fair principles.

(*d*) In cases (*b*) and (*c*) auditors may have to give serious thought to qualifications on the grounds of uncertainty of the carrying value of any goodwill figure.

(*e*) Where the transaction is an acquisition, and goodwill is distributed over tangible assets, a depreciation adjustment is necessary. A method not dissimilar from (*c*) above.

(*f*) Where the transaction is an amalgamation in exchange for shares, the premium on the offerer's shares is reduced to allow for the excess cost of the consideration over net tangible asset values. This type of transaction might contravene section 56, Companies Act 1948.

(*g*) In all cases a full recital of the steps of the transactions should be attached to accounts submitted to shareholders in clear and unmistakeable terms.

36. Discussion should not end without conclusions and therefore the following guide lines on goodwill accounting are offered for both internal accountants and auditors:

(*a*) The net book value of assets should show the value of assets in use for the purposes of the trade or industry. As far as possible the value should be the historic cost to each unit of the group but where revaluations have been merited it would be correct to acknowledge them in book values.

A merited revaluation is one made in order to bring up the intrinsic value of the asset to a modern valuation.

In cases where goodwill is to be distributed over assets to acknowledge such goodwill, only that part which represents under-valuation in the intrinsic value should be acknowledged, if there remains any surplus it is a payment for, or an evaluation of, future earning power and should be classified as goodwill.

(*b*) Only that part of goodwill which has been purchased and represents the cost of future earning power should be accounted for. As far as possible it should be a deduction from consolidated reserves of the group, any balance being shown as goodwill, in the consolidated balance sheet. A full description is desirable, e.g. 'Goodwill, being excess cost of acquisition over value of net tangible assets of shares in subsidiary companies'. Goodwill should remain until written off.

(*c*) All costs of acquisition or amalgamation should be shown, even in cases where there has been a reduction in premium of the offerer company, and the destination of such costs should be indicated.

Reserves and profits

37. Problems do not end with accounting for assets and goodwill, reserves and profits cause trouble too.

The principle of treating the accumulated profits and reserves of a newly acquired subsidiary company, up to the point of acquisition, as of a capital nature is well-known and has its authority rather indirectly in the Companies Act 1967, Schedule 2, paragraph 15 (5). Pre-acquisition profits of a new subsidiary were formerly credited on consolidation to capital reserve. With the advent of the Companies Act 1967, eliminating the distinction between capital reserves and revenue reserves, pre-acquisition profits are lost in the general heading of Reserves, but this does not necessarily mean that they are distributable through the parent company's dividend policies. The principle that a company cannot buy distributable profits applies. If and when they are distributed, they should be accounted for in reduction of the carrying value of the investment in the parent company's balance sheet.

This treatment is correct if the transaction was an acquisition but if it was an amalgamation (see paragraph 31) without new ownership, there is a strong case for contending that the amalgamation was merely a combination of two entities, without necessarily altering the structure of the shareholders' funds. If this contention is valid then profits, whether pre-amalgamation or post, remain distributable as earned profits and not acquired profits.

An alternative treatment, where amalgamation is effected by the use of section 206 (see paragraph 39) and a holding company emerges, is to pay all or a great part of pre-acquisition reserves to the holding company as a dividend which is promptly used for a bonus issue. The effect of this is to eliminate pre-acquisition profits in the holding company and to strengthen its cash funds as against its subsidiaries.

38. The tax effects of merger can be far reaching and certainly require the attention of both the internal and external accountant. In general, mergers are not primarily influenced by tax considerations, the merger being decided

upon almost fully on commercial or industrial grounds; there is a possible exception to this statement, namely, tax-loss situations.

Certainly tax considerations will influence the form of re-organized and merged concerns. As there is a parallel paper on the tax considerations of mergers at this 1968 Summer Course at Oxford[1], they do not form a part of this paper.

Reconstructions under sections 206/208

39. Unfortunately the side-note in the Companies Act 1948 gives a first impression that section 206 is only used in cases of compromises with creditors. The section is most useful for reconstructions and mergers where the creditor position remains quite straightforward and it is only the interests of members which are affected. Leaving aside the consideration of compromises with creditors, reconstructions and mergers under this group of sections are relatively simple and *inter alia*:

(1) Authority is given for a company to make a reconstruction proposal to its shareholders, and only if it thinks fit will the Court step in other than to give general sanction. As a reconstruction normally involves meetings of shareholders, including if necessary, meetings of separate classes, the Court is usually disinterested if the interests of creditors are safeguarded and the appropriate majorities are achieved for the necessary resolutions. It may be required to step in under section 209, for dissenting minorities, or section 210, for aggrieved minorities.

(2) If a necessary three-quarters majority present and voting in person or by proxy agree to any reconstruction and the position of creditors is not impugned, the Court will probably give its required sanction.

(3) The documents must be filed with the Registrar.

(4) The documents must fully explain the proposed transaction, the interests of the directors and the effect of those interests on the arrangement.

At this stage reconstruction only has been dealt with, but it is seldom that a merger does not include, in some measure, reconstruction of the capital of one company or the other. The provisions of this group of sections for merger are *inter alia*:

(5) Where application for reconstruction has been made to the Court, the Court has power to provide in that reconstruction for:

   (i) the transfer of a concern to an offerer,
   (ii) the allotment of shares or debentures in satisfaction,
   (iii) the dissolution of the acquired company,
   (iv) the satisfaction of dissenting shareholders, and
   (v) all other consequential matters.

Where merger as well as reconstruction is involved, the question of stamp duty and its appropriate relief must be carefully watched by the solicitors and the accountants together. (See paragraph 41.)

40. The rights and privileges of non-assenting shareholders under section 209 and section 210 have been dealt with as noted under paragraph 27. A.3 of this paper.

Stamp duty reliefs

41. Care should be taken to seek the advice of solicitors competent in this subject. In general, any transfer of assets attracts *ad valorem* duty of 1 per cent and capital duty is charged at $\frac{1}{2}$ per cent on the nominal amount of such capital. There exist reliefs as follows (but limited):

(*a*) Section 55, Finance Act 1927, which relieves mergers up to certain stated limits.

(*b*) But both or all companies must be United Kingdom incorporated companies and there must be 90 per cent involvement of the former (total, not just equity) capitals.

(*c*) The 90 per cent requirement will not be satisfied if there is allotment by the acquired company of renounceable allotment letters.

(*d*) Where a partial acquisition of an undertaking is effected the basis of relief changes from nominal capital to value of gross assets.

(*e*) Any increases in share capital must be for the express purpose of the merger.

(*f*) A new parent may obtain relief if the merger terms include the incorporation of such a company for that purpose.

(*g*) If cash or debentures are involved, they must not exceed 10 per cent, in order to retain the 90 per cent share level.

Stamp duty law consists of the basic Stamp Act 1891, amended numerous times, and a multitude of case law. When the principles of merger have been agreed or are reaching agreement, solicitors must be brought in if the hazards are to be avoided, and they should work together with the accountants.

Conclusions

42. (*a*) It is most unlikely that a merger of any sort will yield the best and most smoothly achieved results unless the accountants, with their auditors, are in at all stages of examination, discussion, investigation, valuation, price comparison and post-merger accounting.

(*b*) Whilst a do-it-yourself merger appears simple, time-saving and cheap, the results can be appalling – taxwise, accounting-wise and price-wise. More often than not the result is to pay too much; this means overvaluation of assets or investments, and auditors, in such cases, should carefully examine whether the value of such assets are overstated in parent company's balance sheets.

(*c*) Larger mergers appear to be done on price and without reference either to the auditors acting as investigating accountants (best of all) or reference to outside independent investigating accountants. The exclusion of such experts points either to arrogance or ignorance of their usefulness, and either reason should be roundly condemned.

(*d*) Incompetence or lack of attention to legal and well-tried precedents may well lead to breaches of law.

(*e*) Mergers are accountants' business, they are trained in it, they have skills necessary and they are prudent and careful men. Not to use their skills and prudence is foolhardy indeed.

(*Concluded.*)

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[1] To be reproduced later. – EDITOR.

MEMBERSHIP OF ACCOUNTANCY BODIES

As at January 1st

	1968			*1967*			*1950*			*1940*	STUDENTS			
	Total membership	In practice	Not in practice[1]	Total membership	In practice	Not in practice[1]	Total membership	In practice	Not in practice[1]	Total membership	Jan. to Dec. 1967	Jan. to Dec. 1966	Jan. to Dec. 1949	Jan. to Dec. 1939
The Institute of Chartered Accountants in England and Wales	43,742	11,764[3]	31,978[4]	42,457	11,504[3]	30,953[5]	14,632	6,183	8,449	13,473	*New Articled Clerks* 3,850	3,652	1,305	663
The Institute of Chartered Accountants of Scotland	8,024	1,574	6,450	7,866	1,575	6,291	4,924			4,477	*Indentures Registered* 340	350	335	190
The Institute of Chartered Accountants in Ireland	2,077	576	1,501	1,978	557	1,421	724	258	466	433	*New Articled Clerks* 252	243	72	41
The former Society of Incorporated Accountants[2]							8,496	3,253	5,243	7,754	*New Articled Clerks and Bye-law Candidates* —	—	1,363	586
The Association of Certified and Corporate Accountants	12,000			11,719			7,664			6,092	*New Registrations* 4,505	3,753	1,710	1,635
The Institute of Cost and Works Accountants	9,851			9,569			2,710			1,233	*New Registrations* 5,058	5,325	1,793	436
The Institute of Municipal Treasurers and Accountants	4,720			4,462			1,805			1,242	*Admitted after passing or being exempted from the Intermediate Examination* 602	529	285	102

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[1] Includes members not in practice who are employed by firms of accountants.

[2] The Society entered into voluntary liquidation under the Schemes of Integration with the Chartered Institutes on November 2nd, 1957. Its total membership at that date was 11,530.

[3] The United Kingdom only.

[4] Includes 5,683 members not in the United Kingdom whether or not in practice.

[5] Includes 5,323 members not in the United Kingdom whether or not in practice.

Finance and Commerce

J. Lyons

'WE do not regard the present return as satisfactory in relation to either turnover or capital employed. It must be improved.' The words are Mr Geoffrey Salmon's and they appear in his statement with the accounts of J. Lyons & Co Ltd. It is the type of sentence which appears, often with little impact and little consequent effect, in many a chairman's statement. However, to those who make a study of company accounts, this declaration of intent has particular meaning in the J. Lyons report and is of very pertinent interest.

In the past, the directors of the Lyons group have never been regarded as leaders in the development of company reporting. In fact, the Lyons board were notable for resisting any *avant-garde* ideas about giving shareholders information. For many years the company's disclosed profits only moved when the board decided to pay a higher dividend and that, in itself, was not particularly often.

But those days have passed and there is, partly as a result of a new generation, new thinking and a new Companies Act, a virtual revolution in reporting by the group. The statement about the present return on turnover or capital employed now means something because shareholders are told the turnover and have at long last been given an indication of what the true capital employed is.

Asset value

Group turnover, it will be seen, is shown at the top of the notes to the profit and loss account, and the rise of £6 million to £125 million during the year came almost entirely from changes in the composition of the group, notably the inclusion of the hotel companies' results for the first time. Last October Lyons acquired the shares not already owned by them in their associated hotel companies for close on £4 million in cash and unsecured loan stock.

In the directors' report an analysis of trading results shows that 74 per cent of pre-tax profits came from food manufacturing and distribution, 15 per cent from catering and hotels, 9 per cent from property and 2 per cent from 'other' sources. The chairman's reference to the inadequacy of return applies in particular to 'the profit earned for the parent company's equity stockholders', even though that figure was £401,288 up on the previous year at £1,715,103.

As regards the return on capital employed, the crucial point is that, for the first time, there is an indication of the current worth of fixed assets. In the directors' report there is a key paragraph which states 'in the opinion of the directors the market value at the end of the year of the fixed assets of the company and its subsidiaries so far as they consisted of interests in land was approximately £54 million, compared with £23,815,253, the net amount at which they are included in the consolidated balance sheet'.

Management overhaul

The total amount provided for depreciation of properties is considered 'in excess of requirements' and £3,274,244 has been added to the balance of unappropriated profit brought forward from last year. A number of properties, especially catering establishments, need substantial renovation at long, but not necessarily regular, intervals. For this purpose £2¾ million has been set aside from unappropriated profits as a special provision against which the cost of renovation will be charged as incurred. Expenditure charged against this provision is expected to be recovered from profits in the course of the next ten years.

For some years there has been a gradual change in the administration of the Lyons organization and the entire executive management is now the responsibility of two managing directors and all the various activities of the business have been grouped in sectors. The role of the board has changed and its composition will be different in that it will no longer consist solely of full-time executive directors.

The two managing directors are currently carrying out a systematic review of all group activities with a view to concentrating on those with greatest opportunities for future development. Peripheral activities unprofitable at present and unlikely to show an adequate return are being closed down. At the same time an exhaustive examination is being made of all overheads with a view to rationalizing systems and reducing costs.

Costs

The full benefit of these moves will not be felt until next year and in the meantime the measures themselves will give rise to terminal costs and compensation payments. Costs under that heading in the year under review amounted to some £¼ million more than in the previous year.

Meanwhile, the moves to achieve cost economies and to achieve an improved return on turnover and capital employed are having to be made against the background of Government-enforced cost increases. It is estimated that the Transport Bill's effect will be to add at least another £100,000 to the cost pressure on the group, and the last Budget will add £650,000 to costs in a full year, including £238,000 for extra selective employment tax.

'In addition', the chairman comments, 'the extra purchase tax on ice cream, soft drinks and chocolate biscuits, which could amount to a further £½ million per annum, is certain to have a depressing effect on sales if past experience is any guide.'

Inevitably, devaluation has had its effect on raw material costs, particularly of flour, tea, coffee, meat and packaging materials. Increased costs cannot always be absorbed through higher efficiency and the Government's prices policy has delayed or prevented prices increases the company would normally have made.

There is obviously a new phase of development ahead of the group and it is noteworthy that the objects clause in the company's memorandum of association, unchanged since its incorporation in 1894, is to be altered to provide 'a more specific authority for the existing and possible future operations of the group'.

J. LYONS & COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT TO 31st MARCH 1968

	1968 £	1968 £	1967 £	1967 £
GROUP TRADING PROFIT (including investment income and interest receivable)		5,562,667		*4,996,968*
Deduct Interest payable		1,788,048		*1,412,212*
PROFIT BEFORE TAXATION AND MINORITY INTEREST		3,774,619		*3,584,756*
Deduct Estimated taxation on profits for the year:				
Corporation tax	1,014,294		*1,061,514*	
Foreign taxation	183,411		*79,882*	
		1,197,705		*1,141,396*
		2,576,914		*2,443,360*
Net profit attributable to shareholders outside the Group		794,707		*833,139*
PROFIT ATTRIBUTABLE TO J. LYONS & COMPANY LIMITED (of which £1,438,269 (*1967 £1,549,605*) has been dealt with in the accounts of that company as shown in the Report of the Directors)		1,782,207		*1,610,221*
Deduct Preferential dividends		67,104		*296,406*
PROFIT AVAILABLE FOR EQUITY STOCKHOLDERS		1,715,103		*1,313,815*
Deduct Equity dividends	1,309,250		*1,269,576*	
less Income tax retained	—		*179,952*	
		1,309,250		*1,089,624*
		405,853		*224,191*
Add Balance from last year	1,458,691		*2,099,146*	
Prior years' profits attributable to shareholdings in companies now subsidiaries	536,507		*11,440*	
Provision for depreciation of properties no longer required	3,274,244		—	
Devaluation adjustments	25,187		—	
		5,294,629		*2,110,586*
		5,700,482		*2,334,777*
Deduct Transfer to reserves	101,791		*54,686*	
Provision for renovation of properties	2,750,000		—	
Cost of funding retired employees' pensions less corporation tax	—		*821,400*	
		2,851,791		*876,086*
BALANCE OF UNAPPROPRIATED CONSOLIDATED PROFIT		2,848,691		*1,458,691*

NOTES ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1968 £ millions	*1967 £ millions*
GROUP TURNOVER		
The value of goods sold and services provided to customers outside the Group after deducting all discounts and excluding purchase tax	125	*119*

GROUP TRADING PROFIT

The group trading profit is stated after crediting the following items:

	£	*£*
Unquoted investments income	565,107	*278,568*
Quoted investments income	24,354	*11,546*
Loan interest received	15,908	*6,785*
Income less outgoings of properties not in Group occupation	512,453	*499,786*
Packaging materials not previously valued	154,926	—
Depreciation (amounts are not now generally provided for amortisation of freehold and long leasehold land and buildings and have reduced the charge by £75,000 for the year)	3,336,288	*3,341,331*
Provisions for maintenance, etc.	100,848	*47,723*
Provisions for renovation of properties	89,623	—
Provision for pension fund death benefit	37,511	*40,631*
Hire of plant and machinery	177,740	*151,455*
Group auditors' fees	51,866	*43,579*
Directors' remuneration (includes fees £12,113 *1967 £12,460*)	279,933	*233,843*
Pensions in respect of managerial services of former directors	26,228	*40,379*

INTEREST PAYABLE		
Interest on debentures and loans – repayable within 5 years	247,011	*196,614*
– repayable after more than 5 years	873,199	*509,316*
Interest on bank overdrafts	667,838	*706,282*
	1,788,048	*1,412,212*

DIRECTORS' EMOLUMENTS		
Emoluments of Chairman – Sir Samuel Salmon	4,761	*3,650*
Emoluments of highest paid director	20,750	*21,375*

Directors, including the above, whose emoluments were in the bracket

	up to £2,500	£2,501 to £5,000	£5,001 to £7,500	£7,501 to £10,000	£10,001 to £12,500	£12,501 to £15,000	£15,001 to £17,500	£17,501 to £20,000	£20,001 to £22,500
1968	—	1	1	9	4	1	2	—	2
1967	*3*	*3*	*5*	*7*	*2*	—	—	*1*	*2*

An aggregate amount of £1,011 in respect of directors' fees due to eight directors from subsidiary companies for the year ended 31st March 1968 was waived.

EMPLOYEES' EMOLUMENTS

No employee in the United Kingdom, other than directors of the parent company, has received emoluments in excess of £10,000 for the year ended 31st March 1968 or for the year ended 31st March 1967.

TAXATION

The charge for taxation on profits for the year has benefited by taxation allowances on capital expenditure which in the first year are in excess of depreciation.

J. LYONS & COMPANY LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AT 31st MARCH 1968

Notes		1968 £	1968 £	1967 £	1967 £
	Net assets employed				
1.	Current assets	32,912,048		*32,041,101*	
2.	*Less* Current liabilities and provisions	29,886,933		*25,078,508*	
	Net current assets		3,025,115		*6,962,593*
3.	Investments and loans		8,723,286		*9,355,201*
5.	Fixed assets				
	Land and buildings	23,815,253		*16,508,463*	
	Plant, machinery and equipment	19,260,893		*16,113,614*	
	Motor cars and vans	2,390,478		*2,591,220*	
	Uncompleted capital work	2,301,504		*1,481,934*	
			47,768,128		*36,695,231*
	Goodwill, trade marks, patents and registrations	348,910		*337,142*	
	Premiums at which shares of subsidiary companies are held in the books of the holding companies	1,626,565		—	
		1,975,475		*337,142*	
	Deduct Adjustments arising on consolidation	—		*343,026*	
			1,975,475		*−5,884*
			61,492,004		*53,007,141*
	Financed by				
8.	Equity Share Capital		10,056,823		*10,056,823*
9.	Reserves		21,176,948		*20,508,162*
	Unappropriated profit		2,848,691		*1,458,691*
	Ordinary stockholders' equity interest		34,082,462		*32,023,676*
8.	Preference shareholders		966,070		*966,070*
			35,048,532		*32,989,746*
	Interests of shareholders outside the Group		5,084,821		*4,976,052*
10.	Debentures and loans		17,915,894		*15,041,343*
	Provision for renovation of properties		3,442,757		—
			61,492,004		*53,007,141*

The notes on pages [153 to 154] provide appropriate details of the items shown in the balance sheet.

On behalf of the Board,
GEOFFREY SALMON, Chairman.
JULIAN SALMON, Deputy Chairman.

NOTES ON THE BALANCE SHEETS

	1968 THE GROUP £	1968 J. LYONS & COMPANY LTD £	*1967* *THE GROUP* £	*1967* *J. LYONS & COMPANY LTD* £
1. Current assets				
Cash at bankers, in hand and at short notice	1,576,708	189,149	*1,592,347*	*123,302*
Debtors (after providing for bad and doubtful debts) and payments in advance	14,941,648	7,397,078	*14,370,157*	*9,262,569*
Subsidiary companies current accounts	—	2,885,066	—	*2,549,927*
Stock-in-trade, consumable stores, etc., at lower of cost or net realizable value	16,221,723	9,361,584	*15,882,372*	*8,612,695*
Net balance on group current accounts owing to variations in dates of balance sheets	171,969	—	*196,225*	—
	32,912,048	19,832,877	*32,041,101*	*20,548,493*
2. Current liabilities and provisions				
Bank overdrafts	12,363,542	9,675,280	*11,842,961*	*9,626,564*
Creditors, taxation and other accrued liabilities	16,191,002	8,389,029	*11,970,158*	*5,993,759*
Subsidiary companies current accounts	—	471,184	—	*71,174*
Provisions – Maintenance, etc.	270,874	176,908	*276,388*	*177,250*
– Pension fund death benefit	195,263	102,194	*162,423*	*100,275*
Dividends:				
Preference and Preferred Ordinary stocks	33,093	33,093	*33,093*	*33,093*
Equity stocks and shares—proposed final dividend	833,159	833,159	*793,485*	*793,485*
	29,886,933	19,680,847	*25,078,508*	*16,795,600*

At 31st March 1968 amounts totalling £477,824 (*1967 £44,512*) of the bank overdrafts in respect of overseas subsidiary companies were secured.

	1968 THE GROUP £	1968 J. LYONS & COMPANY LTD £	*1967* *THE GROUP* £	*1967* *J. LYONS & COMPANY LTD* £
3. Investments and loans				
Quoted investments	524,492	520,724	*499,475*	*479,760*
Market value	(*614,720*)	(*603,416*)	(*519,003*)	(*497,445*)
Unquoted investments at cost less amounts written off	3,269,533	3,064,380	*3,435,747*	*3,293,615*
Directors' valuation	(*3,750,000*)	(*3,550,000*)	(—)	(—)
Loans to associated companies	463,242	39,487	*659,605*	*396,144*
Loans and mortgage receivable	4,466,019	4,400,000	*4,760,374*	*4,700,713*
	8,723,286	8,024,591	*9,355,201*	*8,870,232*

4. **Contingent liabilities**
exist in respect of:
(a) the pension fund
(b) bank and other guarantees totalling £65,000 (*1967 £49,000*) for the Group and £400,000 (*1967 £548,000*) for J. Lyons & Company Ltd.

J. LYONS & COMPANY LIMITED AND SUBSIDIARY COMPANIES

NOTES ON THE BALANCE SHEETS—*continued*

5. Fixed assets

	THE GROUP 1968 Cost £	THE GROUP 1968 Depreciation £	THE GROUP 1968 Net £	J. LYONS & COMPANY LTD. 1968 Cost £	J. LYONS & COMPANY LTD. 1968 Depreciation £	J. LYONS & COMPANY LTD. 1968 Net £
LAND AND BUILDINGS						
Balance at start of year	22,761,016	6,252,553	16,508,463	17,224,649	5,367,678	11,856,971
Devaluation adjustments	85,015	23,654	61,361	—	—	—
Acquisition of subsidiaries	3,672,176	1,032,246	2,639,930	—	—	—
Additions during year	1,688,462	157,962	1,530,500	1,486,029	111,059	1,374,970
Disposals during year	−307,698	−108,453	−199,245	−123,691	−64,500	−59,191
Provision no longer required	—	−3,274,244	3,274,244	—	−3,274,244	3,274,244
Balance at close of year	27,898,971	4,083,718	23,815,253	18,586,987	2,139,993	16,446,994
Comprising:						
Freehold	17,160,846	845,477	16,315,369	13,592,034	293,897	13,298,137
Leasehold – Long term	7,116,995	1,719,554	5,397,441	2,895,969	663,788	2,232,181
– Short term	3,621,130	1,518,687	2,102,443	2,098,984	1,182,308	916,676
	27,898,971	4,083,718	23,815,253	18,586,987	2,139,993	16,446,994
PLANT, MACHINERY AND EQUIPMENT						
Balance at start of year	34,027,247	17,913,633	16,113,614	17,397,024	8,895,823	8,501,201
Devaluation adjustments	123,684	55,120	68,564	—	—	—
Acquisition of subsidiaries	3,861,695	1,242,507	2,619,188	—	—	—
Additions during year	3,401,540	2,429,835	971,705	2,344,111	1,360,340	983,771
Disposals during year	−1,901,131	−1,388,953	−512,178	−1,226,024	−846,333	−379,691
Balance at close of year	39,513,035	20,252,142	19,260,893	18,515,111	9,409,830	9,105,281
MOTOR CARS & VANS						
Balance at start of year	5,700,269	3,109,049	2,591,220	3,320,275	1,906,676	1,413,599
Devaluation adjustments	24,637	10,241	14,396	—	—	—
Acquisition of subsidiaries	2,851	891	1,960	—	—	—
Additions during year	841,055	748,491	92,564	517,844	473,204	44,640
Disposals during year	−994,214	−684,552	−309,662	−368,652	−284,007	−84,645
Balance at close of year	5,574,598	3,184,120	2,390,478	3,469,467	2,095,873	1,373,594

Investment grants receivable on expenditure on fixed assets to date have been deducted from the costs of the assets.

6. Future capital expenditure

	1968 THE GROUP £	1968 J. LYONS & COMPANY LTD £	*1967 THE GROUP £*	*1967 J. LYONS & COMPANY LTD £*
Contracted for but not provided in the accounts	3,273,000	1,677,000	*3,130,000*	*2,563,000*
Authorised by respective boards of directors but not contracted for	3,458,000	2,343,000		
	6,731,000	4,020,000		

7. Interest in subsidiary companies

	£	*£*
Shares at cost less amounts written off	12,030,861	*6,805,976*
Loan accounts	3,710,609	*3,237,191*
	15,741,470	*10,043,167*
Deduct Deposit accounts	991,711	*760,045*
	14,749,759	*9,283,122*

8. Share capital

	1968 Authorized £	1968 Issued £	*1967 Authorized £*	*1967 Issued £*
Ordinary shares of £1	500,000	400,000	*500,000*	*400,000*
"A" (non-voting) Ordinary shares of £1	8,931,823	8,931,823	*8,931,823*	*8,931,823*
Proportional Profit shares of £1	500,000	500,000	*500,000*	*500,000*
"B" Proportional Profit shares of 10/–	225,000	225,000	*225,000*	*225,000*
Unclassified shares of £1	8,121,390	—	*8,121,390*	—
	18,278,213	10,056,823	*18,278,213*	*10,056,823*
5% First Cumulative Preference shares of £1	55,108	55,108	*55,108*	*55,108*
7% Second Cumulative Preference shares of £1	784,874	784,874	*784,874*	*784,874*
8% Third Cumulative Preference shares of £1	92,087	92,087	*92,087*	*92,087*
6% First Preferred Ordinary shares of £1	34,001	34,001	*34,001*	*34,001*
	966,070	966,070	*966,070*	*966,070*
Total	19,244,283	11,022,893	*19,244,283*	*11,022,893*

The issued shares with the exception of "B" Proportional Profit shares of 10/– have been converted into stock.

9. Reserves

	1968 THE GROUP £	1968 J. LYONS & COMPANY LTD £	*1967 THE GROUP £*	*1967 J. LYONS & COMPANY LTD £*
Balance at 1st April 1967	20,508,162	19,058,340	*14,637,421*	*13,165,931*
Consolidation adjustments	46,875	—	*73,283*	—
Issue of Loan stock and conversion of preference shares	16,518	16,518	*159,693*	*159,693*
Purchased goodwill written off	11,934	11,934	—	—
	20,432,835	19,029,888	*14,404,445*	*13,006,238*
Losses on sales of fixed assets (1967 surplus)	−249,439	−181,218	*6,049,031*	*6,052,102*
Transfers from profit and loss account	101,791	—	*54,686*	—
Acquisition of subsidiary companies	837,555	—	—	—
Devaluation adjustments	54,206	—	—	—
	21,176,948	18,848,670	*20,508,162*	*19,058,340*

10. Debentures and Loans

	£	£	*£*	*£*
REPAYABLE AFTER MORE THAN FIVE YEARS				
4% First Mortgage Debenture stock 1975 repayable by instalments	408,905	408,905	*454,813*	*454,813*
6% First Mortgage Debenture stock 1983/88 repayable at par. Cumulative sinking fund from 2nd November 1968 for redemption by drawings	3,000,000	3,000,000	*3,000,000*	*3,000,000*
5½% Unsecured Loan stock 1987/97 repayable at par	899,956	899,956	*899,956*	*899,956*
7¾% Unsecured Loan stock 1987/97 repayable at par	8,059,870	8,059,870	*5,765,086*	*5,765,086*
Mortgages repayable by instalments interest rates 4¼%, 5¾% and 1½% above bank rate per annum	1,473,202	1,364,846	*1,533,564*	*1,452,192*
Secured loans repayable by instalments interest rate 5½% per annum	22,500	—	*24,000*	—
Unsecured loans repayable by instalments interest rate 6% per annum	18,069	—	*19,337*	—
	13,882,502	13,733,577	*11,696,756*	*11,572,047*
REPAYABLE WITHIN FIVE YEARS				
4% First Mortgage Redeemable Debenture stock 1963/73	1,700,000	1,700,000	*1,700,000*	*1,700,000*
Mortgages	1,253,948	1,245,000	*8,946*	—
Secured loans	39,322	—	*27,381*	—
Unsecured loans	1,040,122	386,366	*1,608,260*	*576,099*
	4,033,392	3,331,366	*3,344,587*	*2,276,099*
Total	17,915,894	17,064,943	*15,041,343*	*13,848,146*

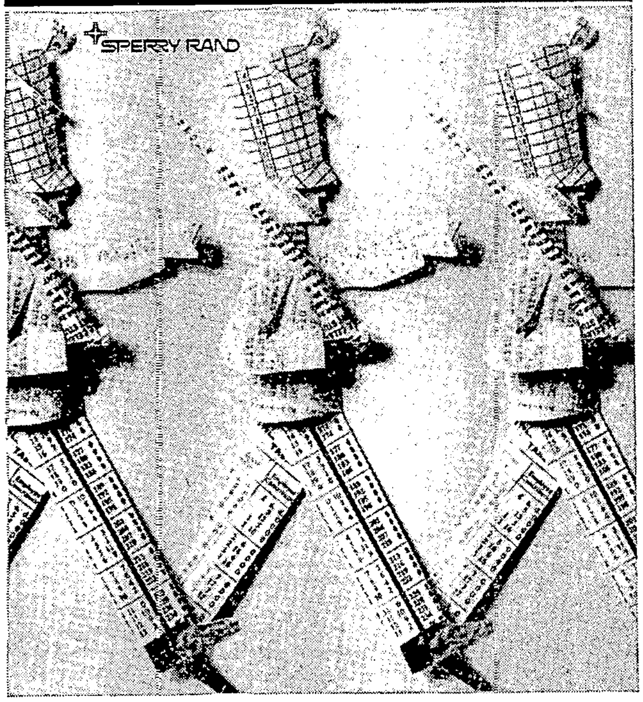
11. Foreign currencies

Conversion rates used are those ruling at the end of the financial year.

12. Financial periods

The financial periods of four of the operating subsidiary companies end on 31st December and two on 30th September. Owing to the seasonal nature of the companies' businesses it is not considered practicable to make the financial year endings coincide with that of the parent company.

CONTROL
the paper explosion



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ACCT 3.8.1968

CITY NOTES

WHEN 'bull' markets reach the point of discounting hope too far there comes a time when good news is devalued and bad news is disastrous. It seems that 500 in terms of *The Financial Times* share index is, temporarily at least, the discounted hope mark for equities.

Prices fell back exactly when sterling was beginning to perform strongly in foreign exchange markets, when there was evidence of increasing industrial productivity and when there was expectation of improving trade figures. But since 500 for *The Financial Times* index is apparently to be the high-water mark, then something out of the ordinary in spring-tide economic and industrial development is needed for the equity market to continue to rise.

The previous high tide of early last May took the flood-water to just under the 490 index mark and the July high tide to just over that level. An ebb to the 450 level would not be surprising and the ebb may run as strongly as it did the last time, allowing the new flood to come in slowly later.

Whether the next flood will take the tide to over 500 is problematical. On the stock-market seashores there are not so many wise-acre longshoremen about as there used to be and 500 is not such a magic tale as it used to be, either.

The 'bull' market may be spent but the development of just as strong a 'bear' market seems unlikely – most unlikely.

* * * *

THERE was, in most quarters of the City, general approval of the firm stand taken by The Institute of Chartered Accountants in England and Wales on the question of profit forecasts in take-over battle documents. The more exotic of such forecasts often provide an interesting exercise in take-over psychological warfare.

The bidding company, faced with the defensive forecast of profits completely out of character with the bid-for company's previous record and performance, has a problem on its hands. It knows the forecasts are ridiculously high but has to take them into account in bid terms, if it wants to win.

Similarly, shareholders in bid-for companies have to judge when their directors are talking profit sense or nonsense. In the past there have been boards of directors shocked to the core by the success of their forecasts and the apparent faith other people put in them.

If the Institute succeeds in taking some of the excesses out of profit forecasts then the operation will be worth while. There is, however, despite the take-over panel's efforts, some danger of take-over profit forecasts being divided into two categories – authorized and unauthorized; even into three – authorized, unauthorized, and 'board's own'.

That might not be so bad. Eventual audited accounts would show which forecast was nearest the mark.

* * * *

THERE has been talk of the 'price' that the banks may eventually have to pay for their mergers in terms of the loss of current customs and concessions. Full disclosure of profits and reserves is one, and the banks are probably far less perturbed about that than they are about the other suggestion – that the common denominator for deposit rates should go.

Competition through service, and through the extent of risk one bank is prepared to take against another, is considered a more viable proposition than competition through interest rates. If the banks were given the choice of either full disclosure or loss of the deposit rate common denominator as a merger 'price', they would probably opt for full disclosure as the lesser of the two evils.

RATES AND PRICES

Closing prices, Tuesday, July 30th, 1968

Tax Reserve Certificates: (29.11.67) Companies 4⅜%; 3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966 ..	.. 7%	Oct. 19, 1967 ..	.. 6%
Jan. 26, 1967 ..	.. 6½%	Nov. 9, 1967 ..	.. 6½%
Mar. 16, 1967 ..	.. 6%	Nov. 18, 1967 ..	.. 8%
May 4, 1967 ..	.. 5½%	Mar. 21, 1968 ..	.. 7½%

Treasury Bills

May 24 ..	£7	4*s*	0·76*d*%	June 28 ..	£7	4*s*	10·04*d*%
May 31 ..	£7	4*s*	9·88*d*%	July 5 ..	£7	4*s*	9·73*d*%
June 7 ..	£7	4*s*	3·30*d*%	July 12 ..	£7	3*s*	5·60*d*%
June 14 ..	£7	3*s*	9·58*d*%	July 19 ..	£7	2*s*	5·25*d*%
June 21 ..	£7	3*s*	8·57*d*%	July 26 ..	£7	1*s*	2·22*d*%

Money Rates

Day to day	.. 5⅞–7 1/16%	*Bank Bills*	
7 days ..	.. 5¾–7⅛%	2 months ..	7½–7 9/16%
Fine Trade Bills		3 months ..	7½–7 9/16%
3 months	.. 8½–9%	4 months ..	7½–7 9/16%
4 months	.. 8½–9¼%	6 months ..	7½–7 9/16%
6 months	.. 8¾–9½%		

Foreign Exchanges

New York ..	.. 2·39 7/16	Frankfurt ..	9·61 7/16
Montreal ..	.. 2·56 29/32	Milan	1489 3/16
Amsterdam	.. 8·67⅝	Oslo	17·10⅝
Brussels ..	.. 119·58	Paris	11·90 15/16
Copenhagen	.. 18·01	Zürich	10·29 1/16

Gilt-edged

Consols 4% ..	52 15/16	Funding 6% 1993	83⅞
Consols 2½% ..	33¾	Savings 3% 60–70 ..	91 1/16
Conversion 3½% ..	47⅞	Savings 3% 65–75 ..	74¼
Conversion 5% 1971	92¾	Treasury 6½% 1976	93 13/16
Conversion 5¼% 1974	89 7/16	Treasury 3½% 77–80	71⅞
Conversion 6% 1972	94 9/16	Treasury 3½% 79–81	68¾
Funding 3½% 99–04	52	Treasury 5% 86–89	74 5/16
Funding 4% 60–90	95 9/16	Treasury 5½% 08–12	75 15/16
Funding 5¼% 78–80	81⅞	Treasury 2½% ..	34⅛
Funding 5½% 82–84	80 15/16	Victory 4%	95xd
Funding 5¾% 87–91	81 7/16	War Loan 3½% ..	47⅛

Correspondence

Integration of the Profession

SIR, – At last the promised land is within sight! This is not the moment for anything but joy – plenty of time remains for examination of detail. But 'the plan' is breathtaking in its scope – and timeliness. Just as all roads once 'led to Rome' so, in future, will all accountancy paths lead towards the goal of chartered accountant.

The Council – and its associates – have taken an immense step towards the promotion of the most important trade – the 'trade' of accountancy – into a well-organized, educated, trained and regulated profession. Two of the most important features of the plan are the 'stepladder' for the promotion of 'Licentiates' into 'Chartered'; and a timely recognition of the modern trend towards 'student-participation'.

This is also a moment for expressing grateful thanks to 'the labourers in the vineyard'; in particular – please let me say it – to the representatives of the leading London practising firms for their whole-hearted and far-sighted co-operation. I can still recall the time when a sectarian Council was dominated by a handful of such firms: the gradual transition (over the past two – three decades) is now a matter of history; but only those who participated in the struggles will fully realize the immense transformation. Hosanna to the names of: Binder, Kettle, Robson, Carrington, Lawson, Peat, Pears, Densem, Benson and Parker.

Finally, may I pay a warm tribute to Stanley Dixon – a worthy first President from industry: the document we have just received is essentially a co-operative effort; but those privileged to know him will recognize – in his introduction – his firm integrity and warm humanity.

Yours faithfully,

Cheam, Surrey. JACK CLAYTON.

SIR, – I have read with interest the correspondence in this matter, together with the proposals of the three Institutes to merge with the Association, The Institute of Cost and Works Accountants, and The Institute of Municipal Treasurers and Accountants. What is significant, however, is that there is no proposal for The Institute of Chartered Accountants in England and Wales to merge with the Institutes of Scotland and Ireland.

It used to be said in France that a deputy who was a communist had more in common with other deputies than with other communists. It would now seem that chartered accountants in England have more in common with certified accountants or cost and works accountants, than they have with chartered accountants of Scotland and Ireland. I for one should like to know the reason for this. The vague reference in paragraph 10 of the Institute proposals to 'Important constitutional and other regional differences in their circumstances' seems incomprehensible to me when considering the differences between chartered accountants and cost and works accountants, etc., which will apparently be overcome by the new proposals.

Yours faithfully,

Manchester. JACK ROSS, F.C.A.

SIR, – The Chartered and Cost and Works bodies have sent out a different booklet explaining the scheme of proposed amalgamation; no doubt the Certified and Municipal Treasurers bodies have done likewise.

The extra cost of setting, proof reading and imposing these separate booklets is about £150 for each booklet; this ignores the cost of time spent by each Institute's editorial staff and also machine setting-up time in each case.

It is now very apparent to me why we are constantly asked to increase subscriptions and this lack of cost consciousness is disgraceful in any organization and particularly so on the part of accountancy bodies.

Yours faithfully,

London W1. IAN A. WINDOW.

Move to Stop *Chartac*

SIR, – I and 133 other members of The Institute of Chartered Accountants in England and Wales have requisitioned a special general meeting with the intention of stopping the issue of the new 'free journal', *Chartac*. [Details of the meeting appear on page 162 of this issue].

We include members in industry, in commerce, those employed in practice and practising members in large and small firms. Our geographical spread covers the whole of England and Wales and a few overseas countries as well. None of us is on the Council or the secretariat of the Institute.

On May 22nd, the membership of the Institute turned down an increase in subscriptions; before making this decision they passed a resolution instructing the Council to issue a free professional journal to all members.

These two decisions were obviously contradictory and the issue of the 'free journal', *Chartac*, may well cost the Institute up to £40,000 a year at a time when the Institute funds are necessarily restricted.

There is only one way in which the money can be found, in view of the decision on subscriptions, and that is by curtailing other much more important Institute activities. I have no doubt that I shall be wrongly accused of acting undemocratically but would point out that on May 22nd, only 25 per cent of the members voted. We would like to see a higher vote now that the matter is to be reconsidered and we therefore ask all members to exercise their voting rights on this occasion.

We hope and believe that we will be supported by a large majority of members from all sections of the profession who will vote for our resolution and that the resolution carried by 371 votes last time will be reversed by a majority of many thousands.

Yours faithfully,

London EC4. HUGH T. NICHOLSON, F.C.A.

SIR, – Many members of the Institute must share my concern at the action of Mr H. T. Nicholson in requisitioning a special meeting of the Institute with the sole intention of reversing the decision to have an Institute journal, taken by 11,805 members on a proxy vote not three months ago.

When notice of the 1968 annual meeting was sent to members, it was accompanied by a letter from myself, putting the case for, and a letter from the President putting the Council's views against, the motion. Proxy cards were enclosed for all 46,000 members to use.

In the Institute's 'Hansard' edition of the proceedings at the annual meeting, Mr Nicholson is credited with having uttered *only nine words* (*vide* page 10 thereof). He now puts the Institute to a cost of at least £1,500 merely because he now wishes to contribute something to the discussion! The Institute's finances are not such that we can afford to pay for members to have the luxury of a special meeting to air their belated views. And what different result does he really think his afterthoughts can produce?

The attempt by a small minority to defy the declared wishes of members can really add to no one's standing.

Members have not been supplied with proxy cards for this requisitioned meeting, and to those who wish to oppose this new threat to modernizing the Institute, I extend an invitation to send me a proxy in the form set out on page 25, A5, *Members' Handbook*. My address is 171–173 Dyke Road, Hove, Sussex, BN3 1TY.

This arrogant act of a minority is the more inexplicable because the Council have already decided at their meeting on July 3rd (reported in *The Accountant*, July 13th), to issue *Chartac* as a monthly journal, which goes far beyond the requirements of the resolution carried last May.

Yours faithfully,
FREDK. A. J. COULDERY,
Hove, Sussex. F.C.A., F.A.C.C.A., F.C.C.S.

Share Valuation for Estate Duty

SIR, – In mentioning (July 27th issue) the recent case of *Re Lynall* you comment that 'the new decision is a little strange in that, assuming all the world as potential purchasers, why should the people in the know be excluded?'.

Mr Justice Plowman went very thoroughly into this question and gave his opinion as follows:

> 'In the first place it seems to me to substitute an intrinsic value test for "the price which in the opinion of the Commissioners the property would fetch if sold in the open market", to quote section 7 (5) of the 1894 Act. To take an example, suppose the deceased to have been the owner of a picture which had been authenticated by the world's leading experts as being the work of some old master. In fact it is the work of a forger, but at the time of the deceased's death that fact is known only to the forger himself and possibly a small number of associates. The price the picture would fetch in the open market at the date of death might be enormous, though it might be almost nothing if the fact of the forgery were known to the buyer. On the wording of the subsection, it appears to me to be plain that the higher value is the value for estate duty purposes even if the forger later confesses.
>
> 'Secondly, once the door is opened to let in evidence over and above the published information, and particularly if all the knowable facts are admissible, an intolerable burden of investigation would be laid upon the Commissioners, and I can see no warrant in the language of the subsection for subjecting them to it.
>
> 'Had I felt entirely free to choose between the other alternatives, I should have preferred the "published information" criterion, partly for the practical reason that I have already indicated, namely, the administrative difficulties of the Commissioners in applying any other, and partly because it is, in my view, wrong to assume, as a matter of law, that a board of directors would disclose to any individual member or to an intending purchaser or his advisers any information which it was under no duty to disclose, such as a contemplated flotation: see *Percival v. Wright* (1902, 2 Ch. 421). In the first place this would mean that the value of the shares, in respect of which the known financial facts remained constant, would be liable to vary at the whim of the board. Secondly, once such an assumption is made, a whole new field of inquiry is opened: What would be reasonable questions to ask? What would reasonable answers to those questions be? What would this particular board have answered if asked? – and so on. None of the answers to these questions is likely to be conclusive or even very satisfactory, and the only safe assumption is that the board would disclose what it was bound to disclose and no more.'

However, as you point out, the Revenue may appeal.

Yours faithfully,
Birmingham. T. A. HAMILTON BAYNES.

Taxation in Company Accounts

SIR, – You say, in a leading article in the July 20th issue, that it would be 'extremely difficult to fault' the new recommendations of the Council of The Institute of Chartered Accountants in England and Wales on the treatment of taxation in company accounts. But I wonder how useful deferred tax liabilities are in accounts?

There have been so many changes in tax depreciation allowances since the war that any concept of 'normal' tax is out of the question. Readers of financial statements do not, I believe, understand the idea of deferred tax liabilities at all well. Simply charging the best estimate of tax actually payable in the next year or two, in respect of the period being reported, at least has the merit of comparative certainty. And it requires no assumptions about future tax rates and regulations and future profits or losses beyond the next year, although since corporation tax rates are announced retrospectively the whole thing is a complete guess.

The best solution to the tax depreciation problem is surely to let companies simply charge for tax purposes the same depreciation as they charge in their published accounts. The charge can only be an estimate, and there seems little point in substituting the tax authorities' set of approximations for those of companies' directors.

In the long run there would be no loss of tax revenue from such a reform, though collection of tax might be slightly delayed. But the system of company taxation would be considerably simplified. Given the essentially subjective and approximate nature of depreciation charges, the main requirement is for companies to apply methods and rates of depreciation consistently – which is more than the Government does for tax purposes.

Yours faithfully,
London W1. D. R. MYDDELTON.

Reviews

Management Planning and Control

by C. S. DEVERELL, M.A., B.SC.(ECON.), B.COM., F.C.I.S., A.M.B.I.M.

Gee & Co (Publishers) Ltd, London. 55*s*.

The first quarter of this book contains chapters on planning, forecasting, organization and decision making. The subject-matter is stimulating and easy to read, with numerous cross references to the works of other authors – from Shakespeare to Peter Drucker. To each chapter is appended a short reading list.

The author then considers, perhaps a trifle less effectively, techniques such as critical path analysis, linear programming, interfirm comparison, and perennials such as costing, marginal costing, capital gearing and the control of working capital. There is also a chapter on the development of managers, and planning for succession. As the emphasis is on general principles and the uses of techniques, there are few detailed examples. The result is thus a little unrewarding at times, leading the author to give his own opinion – such as on D.C.F. – without an example to show its operation – although oddly there is an example on the time-honoured pay-back and return on investment methods.

The book provides an introduction to these principles which should be of great use to those accountancy students who propose to consider the subject in rather greater depth. Its value lies in the author's well-developed technique of raising sound practical questions and it bears the mark of being written by an accomplished discussion leader who quickly establishes some rapport with the reader and encourages an attitude of constructive appraisal.

Leasehold Enfranchisement

by N. T. HAGUE, M.A., LL.B. (Barrister-at-law).

Sweet & Maxwell Ltd, London. 50*s*.

In his preface the author estimates that the leasehold owners of one and a quarter million houses will be entitled to the substantial benefits conferred upon them by Part I of the Leasehold Reform Act 1967. Of these, about 250,000 are in South Wales and 150,000 in Greater London. The Act, with annotations, is set out in full in an appendix of nearly one hundred pages; a further hundred or so pages are devoted to an exposition of the Act in narrative form. Another appendix contains eighteen precedents of conveyancing documents likely to be of value for the purposes of the Act, and there is a short index.

The exposition faithfully reports that the purchase price for the compulsory acquisition of the freehold reversion is the 'market value' of that reversion on the footing that the lease has been extended by fifty years, at a market rent. What everyone wants to know, however, is what this market value is going to be. Experts in valuation seem to be by no means of one mind on this in any individual case.

Bearing in mind that the acquiring tenant has to bear not inconsiderable legal and valuation expenses, it is perhaps not surprising that few people have so far availed themselves of their new rights. Of course, there are cases where the holder of the fag-end of a lease cannot fail to benefit from the Act; but for the leaseholder whose lease still has a substantial term to run, it may well be that the best course is to wait and see.

Advanced Accounting: An Organizational Approach

Second edition by NORTON M. BEDFORD, PH.D., C.P.A., KENNETH W. PERRY, PH.D., C.P.A., and ARTHUR R. WYATT, PH.D., C.P.A.

John Wiley & Sons Ltd, Chichester, Sussex. 88*s*.

The second edition of this American text deals with advanced accounting topics in an interesting and logical fashion commencing with the formation of a company, going on to maintenance, expansion, contraction and, finally, liquidation – whether it be a partnership or company – the authors have arranged the topics into the constituent parts of the business cycle.

This approach is most refreshing and the accountancy student soon becomes aware that the familiar topics of company and partnership accounts cannot each be placed in a separate watertight compartment. Rather the student sees each topic in relation to the whole.

First the theoretical approach to each subject is considered, then the mechanics or practical approach to the accounting processes applicable, are explained in detail. The authors proceed in stages, giving the reader the opportunity of appreciating the reasoning behind the concepts with numerous illustrations.

Two chapters on 'Valuations of the enterprise' and 'Investment for expansion' contain a wealth of valuable material. Consolidated accounts, too, are dealt with at considerable length, and the book concludes with a chapter on actuarial science in which compound interest and annuity calculations are dealt with in a lucid manner.

Management Information

by THOMAS H. WILLIAMS and CHARLES H. GRIFFIN.

Richard D. Irwin Inc., Homewood, Illinois. $8·50.

This is a volume of some fifty articles in nine subject areas, each accentuating a basic type of mathematical application to the solution of accounting or business problems. Of more immediate familiarity to the accountant are the sections on 'Valuation of business resources', 'Inventory control', 'Capital budgeting' and 'Performance review' – the latter being a section of three articles devoted to sampling theory applied to internal and professional auditing.

In a section devoted to basic principles, including the reliability and objectivity of accounting measurements and entitled 'The process of measurement', the principles of conventional accounting measurement are delineated and their limitations explored. At the other end of the scale, a section – 'Integrated planning models' – is essentially a summary of applied principles (covered in the sections already mentioned) together with additional sections on

'The analysis of the distribution function', 'Production planning and control' and 'Operations budgeting'.

In total, this volume lives up to its title being, in fact, a survey of management accounting and other management information supplied to management in quantitative terms, and here treated largely from a mathematical standpoint. For those accountants who are at home with mathematical formulae and graphical treatment, the book provides a ready source of generalized theory and particularized application which, if it does nothing else, succeeds in bringing a scientific precision to a subject traditionally regarded as an art.

Cost Accounting: Principles and Practice

Seventh edition by JOHN J. W. NEUNER, PH.D. and SAMUEL FRUMER, D.B.A.

Richard D. Irwin Inc., Homewood, Illinois. $9.

Now in its seventh edition, this book has been up-dated to incorporate changing accounting methods and procedures, and the accelerating demands of industry and commerce for rational and usable information in this field.

Accordingly, a new chapter has been added on 'The planning budget' and the increasingly important subject of PERT-Cost now finds its rightful place in the field of cost estimating procedures. Nor have practical implications been ignored, since a further new chapter deals with the installation of cost accounting systems, bridging the gap between theory and practice.

It is vital in such a book that attention should be paid to the management use of information and this also has not been neglected. Continual emphasis is placed upon managerial control and the implications for management of basic definitions and procedures, and their limitations.

The apt and progressive problems at the close of each chapter, together with review questions, allow the student reader to test both his knowledge and his understanding at each stage. The examples are well chosen, the diagrams being particularly clear.

RECENT PUBLICATIONS

READINGS ON TAXATION IN DEVELOPING COUNTRIES, revised edition, edited by Richard M. Bird and Oliver Oldman. xii+547 pp. 9×6. 95*s*. The Johns Hopkins Press, Baltimore. Oxford University Press, London.

MANUAL OF OFFICE ADMINISTRATION, by B. H. Walley. xiii+423 pp. 9×5½. 70*s*. Business Publications Ltd, London.

THE ELEMENTS OF PROBABILITY AND SAMPLING, by Frank A. Friday. xvii+130 pp. 9×5½. Paperback 17*s* 6*d*, cloth 35*s*. Basil Blackwell Ltd, Oxford.

DECIMAL CURRENCY FOR BRITAIN, by D. Neville Wood. 92 pp. 8½×5½. 15*s*. Ward Lock & Co Ltd, London.

THE COMPANY DIRECTOR, HIS FUNCTIONS, POWERS AND DUTIES, by Alfred Read, C.B.E., F.C.I.S., F.INST.D. xxvi+216 pp. 8½×5½. 30*s*. Jordan & Sons Ltd, London.

CONCEPTS OF OPERATIONAL RESEARCH, by Patrick Rivett. ix+206 pp. 7½×4½. 15*s*. New Thinker's Library, C. A. Watts & Co Ltd, London.

These books may be obtained from, or through, Gee & Co (Publishers) Ltd, The City Library, 151 Strand, London WC2.

Computer Congress and Exhibition in Edinburgh

NEARLY 4,000 delegates from forty countries will be attending the 1968 Congress of the International Federation for Information Processing to be held in Edinburgh from Monday to Friday of next week. Papers will be presented by over two hundred and fifty of the world's leading computer and communications experts.

Although dealing primarily with pure computer technology, there will also be papers of interest to accountants and office managers. In addition, numerous applications and systems problems are to be discussed.

Another feature of the Congress will be an exhibition to be held in the Waverley Hall where British, American, French, Israeli, Italian and Japanese companies will be showing a wide range of computers and associated equipment. Some of the exhibits which will be on display – many for the first time in Britain – are briefly referred to in the following notes.

EXHIBITION PREVIEW

An interesting exhibit on a combined De La Rue Bull/General Electric/Olivetti stand at the exhibition will be a group of time-sharing terminals linked to computer centres in Britain and Europe. There will also be demonstrations of one of the GE–100 computers. In addition, British Olivetti will be showing a wide variety of data handling equipment covering collection, encoding, processing and transmission.

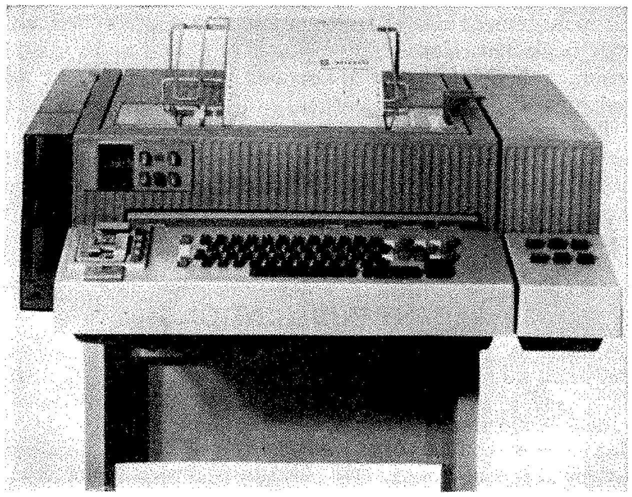
A second reading head is now available on the Cummins 216 document reader which will be on show. This adds 'turn round' applications to the present system. In addition to recording instalment payments and rentals, the 216 automates the preparation of input data for rates, rents and stock control.

Cummins will also show the RC 3000 offline conversion system which outputs data from magnetic tape to a line printer, plotter or on to paper tape, as well as putting data on to magnetic tape from punched cards or paper tape.

High speed plotting

California Computer Products Inc. manufacture a range of computer output plotters and the company will be showing the CalComp model 718. This is one of several models which provide high speed plotting and is suitable for automatic digital plotting with virtually any standard computer.

The highlight of the Creed & Co stand will be the new 8-bit, 96 character Envoy Dataprinter which will transmit



One of the keyboards in the range of Olivetti TE300 Real-Time Terminals.

or receive 8-bit codes at up to ten characters per second; it also punches, reads, duplicates and interprets 8-track tapes. The 96 character print-out has the facility of upper and lower case printing and altogether 128 code combinations are handled with the keyboard.

The main exhibit of Fabri-Tek Computer Components will be what is termed its standard, expandable, memory system which has core and thin-film memory units. There will also be a demonstration of the Bi-Tran Six educational computer which is an approved training aid for the U.S. Navy.

Automatic writing

Farrington International, which markets in the United Kingdom through Adrema Ltd, will be showing their model 3010 document reader, and a completely new punched card/punched tape input/output automatic writing machine which will be computer-code compatible. A range of embossed plastic card imprinters will also be shown.

The Electronic Data Processing Division of Honeywell Controls Ltd will show their Series 200 computers for commercial applications, while the Computer Control Division of the company will demonstrate the DDP-416 and the DDP-516 for real-time industrial and scientific uses. These machines, incidentally, are made only thirty minutes' drive away from the exhibition site.

The International Business Machines' stand will feature the visual display typewriter and small computer terminals on-line to remote System 360 installations in various parts of Britain. Applications will include job entry, time sharing, conversational programming and conversational order entry. Other exhibits will include holograms, memory techniques and optical communications.

Console interrogating typewriters and visual display units will be linked by International Computers Ltd to computers at their Putney headquarters to demonstrate applications. Also, a 1900 'A' series computer on which manufacturing and production programs are used in I.C.L's own factories will be run in a demonstration of multiprogramming.

Microfilmer for computer print-out

A continuous stationery microfilmer, the Recordak Rotoline, which is capable of reducing 38,400 inches of computer print-out to a 100-foot roll of microfilm in less than twenty minutes will be shown by Kodak Ltd for the first time. The Miracode Retrieval and other microfilm units will also be on display.

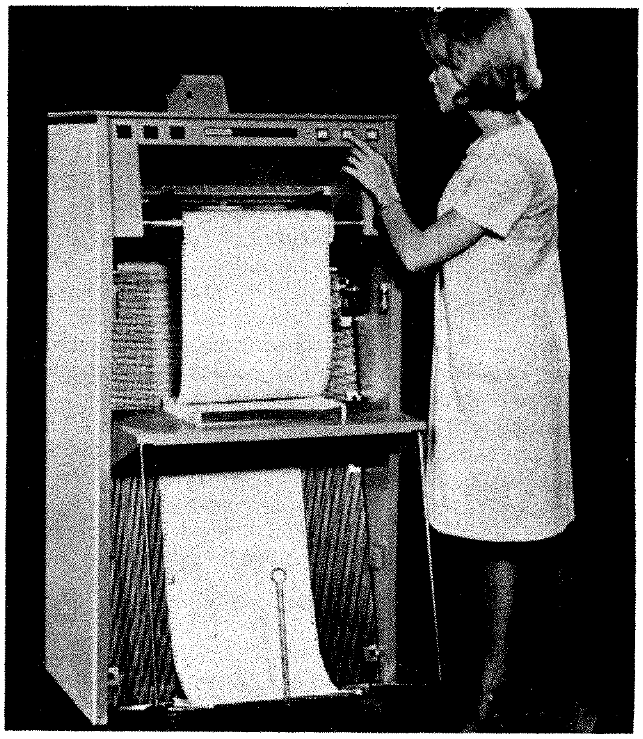
Various computer peripheral devices which will be operating on their own, or linked to such items as disk calculators, will be demonstrated by Muldivo Ltd. They will also show a range of electronic accounting and invoicing machines.

On the National Computing Centre stand, many of the varied activities of the Centre will be shown, particularly their Systems Training Package and their range of publications.

A scientific digital computer and its major peripherals will be exhibited by The Solartron Electronic Group Ltd, as well as an HS7-6D digital-controlled hybrid computer.

Communication-based applications in real-time commercial systems and on-line scientific systems, including among others airline reservations and numerical control of machine tools, will be featured by the Univac Division of Sperry Rand Ltd. The Sperry Gyroscope Division will exhibit a range of magnetic storage drums, one with a new floating head.

VersaSTORE is the name given to a number of models of core memory which Varian Data Machines will be displaying, together with a small store, low cost memory being shown for the first time in Europe at this exhibition.



The new Kodak Rotoline Microfilmer for computer print-out which will be introduced at the exhibition.

In Parliament

Tax Allowances: Dependants

Mr JOHN PAGE asked the Chancellor of the Exchequer whether he will introduce legislation to provide that tax allowances are only made available to taxpayers in respect of dependants resident in this country.

Mr HAROLD LEVER: I have noted the hon. Member's suggestion.

Mr JOHN PAGE asked the Chancellor of the Exchequer how many taxpayers are claiming allowances for overseas dependants; how many dependants are concerned; and what is the total sum of tax relief given in respect of non-resident dependants.

Mr HAROLD LEVER: The information is not available.

Hansard, July 11th, 1968. Written answers, col. 300.

Public Schools: Tax Dispensation

Mr PARDOE asked the Chancellor of the Exchequer what estimate he has made of the net loss of revenue to his department of the dispensation from selective employment tax granted to public schools as charities.

Mr TAVERNE: The best estimate available, for the financial year 1966–67, is about £1·2 million.

Hansard, July 19th, 1968. Written answers, col. 302.

Company Directors' Salaries

Mr JOHN LEE asked the President of the Board of Trade what is the total number of salaries of directors of public companies disclosed as a result of the Companies Act 1967; how many cases there are of salaries exceeding £30,000 per annum, and how many cases of salaries ranging between £20,000 and £30,000 per annum; and in how many cases have such salaries been the subject of an increase during the current financial year.

Mr DELL: An analysis by the Board of Trade of the accounts for years ending on or after January 27th, 1968, of 155 large companies shows that, of their 1,075 directors, one had emoluments exceeding £30,000 and fifteen were in the range £20,000 to £30,000. The last part of the question cannot be answered from the information now published under the Act.

Hansard, July 22nd, 1968. Written answers, col. 13.

Company Mergers

Mr JOHN LEE asked the Chancellor of the Exchequer how many mergers of public companies have occurred during the current financial year; in how many cases have Government departments acquired shares in the companies so merged; in how many cases have such share acquisitions given to the Government a controlling interest; and if he will make a statement.

Mr DIAMOND: The reply to the first part of the question is not available; but I understand that twenty-three proposals for large-scale mergers were considered by the Board of Trade in the first three months of the current financial year. Only one merger taking place in that period involved Government participation and no controlling interest was acquired.

Hansard, July 23rd, 1968. Written answers, col. 66.

Land Commission Act

Mr RIDSDALE asked the Minister of Housing and Local Government if he will take steps to amend the Land Commission Act to help elderly people on small fixed incomes.

Mr MACDERMOT: Levy is payable where development value has been realized. It is not practicable to make exemptions based on the individual circumstances of persons liable to levy, but the Commission is willing to consider requests for payment by instalments if there is difficulty over payment.

Hansard, July 23rd, 1968. Written answers, col. 52.

Directors' Remuneration: Taxation

Mr DONALD WILLIAMS asked the Chancellor of the Exchequer what is the practice of the Inland Revenue regarding the number of hours per week which a part-time service director must work in order to qualify to be treated for taxation purposes under section 74 (3) of the Finance Act 1965.

Mr DIAMOND: Section 74 (3), Finance Act 1965, is regarded as applying to directors who work the same number of hours as those normally worked by full-time employees of the company.

Hansard, July 23rd, 1968. Written answers, col. 66.

Entertainment Industry: Taxation

Sir D. WALKER-SMITH asked the Chancellor of the Exchequer whether he is aware that the growing but legitimate tax avoidance practice of the sale of their services by self-employed persons in the entertainment industry for convertible loan stock in companies, is costly to the Revenue and confers an unjustifiable advantage over professional self-employed persons to whom this method of abating the present levels of taxation is not available; and if he will consider introducing legislation to regulate this practice.

Mr DIAMOND: I am aware of this practice and am keeping it under review.

Hansard, July 23rd, 1968. Written answers, col. 68.

Polygamous Marriages: Tax Allowance

Mr BROOKS asked the Chancellor of the Exchequer how many wives of a polygamous marriage qualify for married persons' tax allowance; and what would be the tax liability of a wife who receives such an allowance in the event of her widowhood.

Mr TAVERNE: The married man's tax allowance is the same whether the husband has one wife or more than one; it is an allowance to the husband, and not to the wife. The tax liability of a widow of a polygamous marriage will depend on her income and the tax reliefs and allowances due to her.

Hansard, July 24th, 1968. Written answers, col. 141.

Tax Relief: Allowances

Mr RICHARD WAINWRIGHT asked the Chancellor of the Exchequer what was the total amount of relief given from income tax and surtax in the years 1965–66, 1966–67 and 1967–68 in respect of the additional personal allowance.

Mr Harold Lever: The estimated amounts are £1¾ million, £2 million and £4 million for the respective years.

Mr Richard Wainwright asked the Chancellor of the Exchequer what was the total amount of relief given from income tax and surtax in the years 1965–66, 1966–67 and 1967–68 in respect of the housekeeper allowance.

Mr Harold Lever: The amount of relief given for the years 1965–66, 1966–67 and 1967–68 is now estimated at £3 million, £4 million and £4 million.

Mr Richard Wainwright asked the Chancellor of the Exchequer what was the total amount of relief given from income tax and surtax in the years 1965–66, 1966–67, 1967–68, in respect of dependent relative allowance.

Mr Harold Lever: The estimated amount of relief given for the years 1965–66, 1966–67 and 1967–68 was £34 million, £34 million and £35 million respectively.

Mr Richard Wainwright asked the Chancellor of the Exchequer what was the total amount of relief from income tax and surtax in the years 1965–66, 1966–67 and 1967–68 in respect of the daughters' services reliefs.

Mr Harold Lever: Less than £¼ million each year.

Hansard, July 24th, 1968. Written answers, col. 142.

Notes and Notices

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

Special Meeting

A special meeting of members of the Institute is to be held at 2.30 p.m. on Thursday, August 29th, in the Assembly Hall at Church House, Westminster, London SW1. The meeting has been requisitioned by Mr H. T. Nicholson, F.C.A., supported by 133 other members, under bye-law 94, for the purpose of considering the resolution:

> 'That this meeting rescinds the resolution passed at the Annual General Meeting of the Institute on May 22nd, 1968, whereby the Council was instructed to issue to members a free professional journal at least six times in every calendar year.'

As this is a matter upon which there are considerable differences of opinion, the Council feels that the arguments for and against the issue of a free journal should be presented to all members before they vote. The Council has therefore decided not to issue proxy cards with the notice convening the meeting but steps will be taken for a poll to be demanded on the resolution and proxy cards together with a transcript of the discussion at the meeting, will then be sent to all members so that they may vote when the poll is taken.

In view of this action the Council have further decided to defer the publication of the journal, *Chartac* (recently announced as commencing on September 13th) until a final decision by members has been taken.

PROFESSIONAL NOTICES

Messrs Foster, Weyman & Co, Chartered Accountants, announce that they have recently removed their offices to Capel House, 62 New Broad Street, London EC2.

Messrs Freeman Bros & Co, Chartered Accountants, of 374 Old Street, London EC1, and Messrs Lever, Lawrence & Co, Chartered Accountants, of 109 Kingsway, London WC2, announce that with effect from July 26th, 1968, their firms have become amalgamated. The new firm will be known as Freeman, Lawrence & Partners, and the existing partners of the old firms, Messrs S. Freeman, F.C.A., N. Freeman, F.C.A., L. Marks, F.C.A., S. Lever, F.C.A., L. B. Coombs, LL.B., F.C.A., will be joined by Mr N. Bell, A.C.A., in the new firm, which will practise from 109 Kingsway, London WC2. Telephone 01–405 1205.

Messrs Alfred Tooke & Co, Chartered Accountants, of 100 Park Street, London W1, and Messrs Harry L. Price & Co, Chartered Accountants, of 20 Princess Street, Manchester 1, announce that they have jointly acquired the insolvency practice formerly carried on by Mr J. D. Moore, at 4–6 Silver Street, Hull. In future the practice will be carried on from 4 Silver Street, Hull, in the name of Price, Tooke & Co. The Hull partners will be Messrs N. H. Russell, F.C.A., J. H. Eaves, F.C.A., N. A. Armstrong, F.C.A., and D. L. Morgan, A.C.A.

APPOINTMENTS

Mr A. G. Andrews, F.C.A., has been appointed group financial director of Ofrex Group Ltd.

Mr L. J. Baldwin, A.C.A., has been appointed secretary of Clares (Holdings) Ltd.

Mr Brian Gurney, F.C.A., secretary and financial controller of Sun Printers Ltd, has been appointed a director of the company.

Mr Francis Hoogewerf, A.C.A., and Mr Peter Blackie, A.C.A., have joined

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REVALUATION OF ASSETS
WORKS, FACTORIES, PLANT & MACHINERY, Etc.

the board of Intervestor Services S.A. in Luxembourg.

Mr P. Brenan, F.C.A., chief accountant of Hambros Bank Ltd, has been appointed to the board of the company.

Mr P. Brenan

Mr G. Lee

Mr Geoffrey Lee, F.C.A., deputy chief accountant of East Midlands Gas Board, has been appointed director of finance of the Board.

Mr Philip O'Donoghue, A.C.A., has been appointed secretary of Allied Irish Investment Bank Ltd, as from September 1st.

CAPITAL GAINS TAX

Trusts with no Life Interest in Possession

The Inland Revenue announced last week that persons acting as trustees, or as professional advisers of trustees, of trusts with no life interest in possession are reminded that as from April 7th, 1967, charges to capital gains tax on the accumulated but unrealized gains of such a trust may arise under the provisions of section 25 (7) of the Finance Act 1965. For 1967–68 there will be an occasion of charge for any such trust, if the fifteenth (or any multiple of fifteen) anniversary of the date on which it was originally set up falls between April 7th, 1967 and April 5th, 1968, inclusive. Return forms for the year 1967–68 call upon trustees to give the relevant particulars.

DOUBLE TAXATION RELIEF

Orders in Council relating to the Double Taxation Agreements with Antigua, Cyprus, Dominica, Gambia, Malawi, St Lucia, St Vincent, Sierra Leone and Zambia relating to taxes on income were made on July 12th, and have now been published as Statutory Instruments.

Luxembourg

The Double Taxation Convention with Luxembourg relating to taxes on income has now been published as a Schedule to an Order in Council, numbered S.I. 1968, No. 1100.

Sweden

The Protocol to the Double Taxation Convention with Sweden has now been published as a Schedule to an Order in Council, numbered S.I. 1968, No. 1105.

5 PER CENT DEFENCE BONDS (SECOND ISSUE)

Conversion Offer

The Treasury has announced that a conversion offer will be made to holders of 5 per cent Defence Bonds (Second Issue) purchased in the period June 16th, 1961, to December 15th, 1961, which mature on December 15th, 1968, and are repayable at £103 per cent upon maturity.

Holders of such Bonds will be invited to exchange their holdings on December 15th, 1968, into 6 per cent British Savings Bonds (Second Conversion Issue) which will be repayable on application at £102 per cent upon maturity. The terms of these new Bonds will be the same as those of the 6 per cent British Savings Bonds (First Issue) currently on sale, except that interest will be payable on June 15th and December 15th.

Those who accept the offer of conversion will receive on December 16th, 1968, the final interest payment on the matured Defence Bonds, at £5 per cent per annum for the period June 15th, 1968, to December 14th, 1968, together with the maturity premium of £3 per cent on Bonds exchanged.

Holders of the maturing 5 per cent Defence Bonds (Second Issue) who decide not to accept the conversion offer should apply for repayment, as interest will not be payable on the Bonds after they mature on December 15th, 1968.

The list of acceptances of the conversion offer will be closed on August 16th.

CHARTERED ACCOUNTANTS AWARDED BUSINESS DIPLOMA

Mr R. M. Hogarth, A.C.A., and Mr C. J. N. Ward, A.C.A., have recently successfully completed the 1967–68 course at the European Institute of Business Administration at Fontainebleau, and have been awarded the Diploma INSEAD.

Founded in 1958 by a group of French graduates from Harvard and now one of the leading graduate business schools in Europe, the Institute was referred to in detail in an article in *The Accountant* of April 29th, 1967. It will shortly be sending out a questionnaire to chairmen or managing directors of about five hundred of the largest companies in the United Kingdom, asking for particulars of their age, salary, business experience and length of company service. Similar questionnaires will be sent to about one thousand five hundred Continental companies.

When the survey has been completed, the results will provide the first comprehensive profile of the top executives in Europe.

BRISTOL CHARTERED ACCOUNTANT AWARDED BANK SCHOLARSHIP

The first award of the Williams Deacon's Bank Scholarship has been made to Mr Andrew D. S. Gunn, A.C.A., of Henleaze, Bristol. Mr Gunn, who has just completed the Diploma in Business Administration at the Manchester Business School, will now spend a further year there with a view to obtaining his Master's Degree.

A member of The Institute of Chartered Accountants in England and Wales since 1966, Mr Gunn was articled in Bristol and worked for a period with a firm of chartered accountants in London. He hopes to pursue a

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NORTH STAFFORDSHIRE SOCIETY OF CHARTERED ACCOUNTANTS

New Officers Elected

At the recent annual general meeting of the North Staffordshire Society of Chartered Accountants the following officers were elected for 1967–68:

President: Mr L. G. Fetzer, F.C.A.
Immediate Past President: Mr P. Williams, F.C.A.
Founder Chairman: Mr F. W. Carder, F.C.A.
Vice-President: Mr W. R. Dean, B.A., F.C.A.
Secretary: Mr N. E. Dunning, F.C.A., 17 Albion Street, Hanley.
Assistant Secretary: Mr G. B. Snow, F.C.A.
Treasurer: Mr S. R. Woodgett, F.C.A.
Librarian: Mr A. B. Snow, F.C.A.
Committee: Messrs C. W. Blagg, F.C.A.; C. C. Bullock, T.D., F.C.A.; E. Buxton, F.C.A.; P. H. Osborne, F.C.A.; J. Plumb, A.C.A.; E. O. Toft, F.C.A.; A. Tucker-Feltham, F.C.A.

SOUTHERN SOCIETY OF CHARTERED ACCOUNTANTS

Annual Report

The third annual report of the Southern Society of Chartered Accountants records that at December 31st, membership totalled 817.

Among the Society's activities during the year were two successful residential conferences. The first included talks on 'Inventory control with particular reference to stock reduction'; 'Speeding up preparation of accounts', and 'Improving the efficiency of administration of accounting departments'. The conference, which was by way of an experiment, attracted some sixty members.

The second conference was run on similar lines, and the attendance numbered 114. The topics considered were primarily of interest to the practising member, and included 'Some aspects of back duty problems'; 'The Companies Act 1967', and 'Auditing problems of a small business'.

The Society's local members' groups at Andover and Basingstoke; Bournemouth, Dorchester, Farnborough, Aldershot and Alton, Isle of Wight, Portsmouth, Salisbury, and Southampton, had active programmes of meetings during the year, although at the first meeting of the Farnborough, Aldershot and Alton Group the support from members was extremely poor and since this date, the report states, little contact with the Group ensued, and no further joint meetings were arranged.

Referring to courses for newly articled clerks, the report expresses some disappointment at the lack of support for the nine-month full-time course, provided by Portsmouth College of Technology, which started last September. Such courses, says the report, are soon likely to be made compulsory and practitioners within the Society's area are asked to encourage their new clerks to attend these courses.

INSTITUTE OF INTERNAL AUDITORS

London Chapter's Summer School

More than one hundred delegates from over sixty organizations in the United Kingdom, Ireland, Belgium, Switzerland and India, attended the second residential Summer School organized by the London Chapter of the Institute of Internal Auditors held with the greatest success at Clare Hall, Leicester University, during the week-end July 13th to 15th.

The school was opened with a short address of welcome from the President of the Chapter, Mr P. C. Elliott, F.C.A., manager, internal audit, United Kingdom, Shell International Petroleum Co Ltd.

Papers presented included: 'Conflicting concepts of internal auditing', by Mr S. S. Ross, Regional Vice-President and chief internal auditor, Joseph Lucas (Industries) Ltd; 'Operational auditing', by Mr Thomas A. Gelwich, European audit manager, Clark Equipment A.G., and a member of the Institute's Chicago Chapter; and 'The management auditor's approach to financial information', by Mr F. J. Rigg, F.C.A., a Governor of the London Chapter, and chief internal auditor, Taylor Woodrow Services Ltd.

The programme also included work in small syndicates which provoked many vigorous exchanges of views, often continuing late into the night. On the Sunday morning the speakers answered further questions, and took part in an open discussion on internal audit topics.

In closing the school, Mr Elliott expressed appreciation to the speakers for the uniformly high standard of the papers presented, and to the principal organizer, Mr H. A. Whittaker, head of internal audit, United Kingdom, Brooke Bond Services Ltd, and the London Chapter Education Committee, for the excellence of the arrangements. It was the unanimous feeling that the school must now become an annual event, and July 11th–13th, 1969, has been fixed for the third School.

MINISTRY OF SOCIAL SECURITY

Annual Report for 1967

The annual report of the Ministry of Social Security, now published, describes the year 1967 as one of consolidation rather than of innovation. Pressure on staff continued to be heavy because of a rising number of beneficiaries and the work arising from increases in nearly all benefits.

At the end of last year flat-rate contributions were being paid by employers and insured persons at the rate of about £2,750 million a year. Of this sum about £160 million represented National Health Service contributions, about £36 million employers' redundancy fund contributions and about £1,100 million selective employment tax. The remainder, a little over £1,450 million, was being paid into the National Insurance and Industrial Injuries Funds. In addition, the Exchequer was contributing to these funds at the rate of £350 million a year. Graduated contributions were running at about £420 million a year. There were about 25 million people in the National Insurance schemes. Of these, about 15 million were employed men and 8¼ million employed women. There were one and a half million self-employed and 250,000 non-employed people.

There was a marked increase in the number of prosecutions for failing to pay insurance contributions – from 3,787 in 1966 to 4,561 in 1967. The total of benefit frauds showed little change, although there was an increase in the number of offences by persons moving from office to office and making fraudulent claims for supplementary benefit. There were 775 prosecutions for this type of offence compared with 521 in 1966. Of 95 unemployed people prosecuted for persistent refusal or neglect to maintain themselves, 43 were jailed and 23 fined.

At the end of the year there were 1,041 local offices of the Ministry and the department's staff totalled 61,420 – 3,176 more than at the end of 1966. Expenditure on administration amounted to £86 million in 1966–67.

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Tax Paradise Lost

MOVING funds out of the United Kingdom to tax havens has been given a considerable impetus by the imposition of capital gains tax; particularly the imposition of tax on notional disposals arbitrarily assumed by the Finance Act 1965. Though even before capital gains tax arrived, the Variation of Trusts Act 1958 was being used to obtain the Court's sanction to such a move (*In re Seale's Marriage Settlement*, [1961] 1 Ch. 574). However, the tendency has suffered a severe check, first at the hands of Mr Justice Stamp on January 30th, and now at the hands of the Court of Appeal which, on Wednesday of last week – the last day of the Trinity Sittings – upheld the decision of the judge, in *Re Weston's Settlements* (*The Accountant*, February 10th; [1998] 2 W.L.R. 1154).

The applicant was Mr Stanley Weston who was born in 1916 and had made a considerable fortune in the Sheffield area. He had two sons, one born in 1942 and the other in 1949. The elder son married in 1964 and had one child, born in 1966. In 1964 Mr Weston made two settlements. The first was made in June between Mr Weston and four trustees, the principal beneficiary being the younger son. The second was on the marriage of the elder son in July and he was the principal beneficiary.

In each case, broadly speaking, the principal beneficiary took a life interest, with a general power of appointment over a quarter of the fund, subject to his attaining 30, and a similar power over a further quarter if he attained 45. Subject to these and certain minor provisions, the fund was held on trust for the issue of the principal beneficiary as he should appoint, and subject to appointment, for his children in equal shares.

The assets of the first settlement – consisting almost exclusively of shares in the family company, Stanley Weston Group Ltd – were worth £400,000 in January 1968. The marriage settlement funds, consisting exclusively of such shares, were worth £320,000. That represented a considerable increase on their value in 1965 and it was estimated that if the trustees disposed of the shares (or were deemed to dispose of them) there would be a capital gains tax liability of £163,000 in terms of tax.

Mr Weston bought a house called 'Chantal' in Jersey at the end of 1966, and after some short visits to Jersey he and his wife and younger son took up residence there in August 1967. In May 1967, the elder son took an assignment of the lease of a flat in Jersey and, in his own words – 'On August 29th, 1967, I left the United Kingdom for good, having previously sold my house in

Sheffield with vacant possession, and went, with my wife and son, to live in Jersey. We stayed at an hotel in St Helier until I got vacant possession of our new flat on September 29th, 1967. On that date we moved into the flat, where we have lived ever since'.

Mr WESTON took out an originating summons on November 7th, 1967, making an application under section 41 of the Trustee Act 1925 and section 1 of the Variation of Trusts Act 1958 for the Court:

(1) To appoint two named professional individuals in Jersey as trustees of the two settlements in place of the existing English trustees.

(2) To order the existing trustees to take the necessary steps to effectuate the new appointment and to transfer the trust funds to the two new trustees.

(3) To approve on behalf of (*a*) the infant beneficiaries and (*b*) all unborn or unascertained persons who might become beneficiaries, an arrangement under which the new trustees after the expiration of three months, from the date of the Court's order, would transfer the trust funds in each settlement to the trustees of a new settlement to be constituted under the Law of Jersey but to be in substantially the form of the existing settlement.

The fiscal advantages of such an arrangement are clear. The transfer of trust funds merely on the appointment of new trustees is not a 'disposal' for capital gains tax purposes (Finance Act 1965, section 25 (1)). By the time the funds were transferred to new settlements they would be assets owned by trustees who were neither resident, ordinarily resident, nor domiciled anywhere in the United Kingdom and therefore that transfer equally would not attract capital gains tax in their hands (Finance Act 1965, section 20 (1)). Moreover, given that the existing beneficiaries were neither resident nor ordinarily resident in the United Kingdom, no capital gains tax could be levied on them under section 42 of the Finance Act 1965. These advantages would extend to future disposals of trust property.

At the same time, it would be possible to avoid estate duty on the deaths of the principal beneficiaries. Section 28 of the Finance Act 1949 confers exemption in respect of property outside Great Britain which passes under a law which is neither English nor Scottish, where the person under whose disposition it passes is domiciled out of Great Britain. It would be a simple matter for the new trustees to transfer the trust funds to a Jersey company in exchange for shares which would indubitably be property outside Great Britain. It was argued that the persons who made the new settlements were the existing beneficiaries who were already domiciled in Jersey. These savings of estate duty would persist even if, thereafter, the beneficiaries resumed residence in the United Kingdom.

There remains the slight doubt as to whether the Revenue could nevertheless proceed against the company under section 46 of the Finance Act 1940 but this is perhaps a small matter. Financially, it could hardly be questioned that the move, if effective, was for the benefit of the infant and unascertained beneficiaries. However, at the High Court hearing, Mr Justice STAMP said he was not satisfied that the evidence before him had established that the change in domicile had been effectuated.

It is, of course, trite law that although domicile is a matter of intention, declarations of intention by an individual who would benefit from the change of domicile are not necessarily accepted. The statement of the elder son quoted above was contained in an affidavit which was the subject of some criticism by the judge. Mr WESTON gave affidavit evidence about his own intention to remain in Jersey, to acquire a hotel there and to employ the younger son in the hotel; but the younger son did not give evidence.

Although he upheld the decision of Mr Justice STAMP, Lord DENNING's judgment in the Court of Appeal had a somewhat different emphasis. He said two propositions were clear: first, in exercising its discretion the Court must do what was truly for the benefit of those who could not protect themselves; secondly, it could consent to a scheme to avoid taxes. Nearly every scheme under the Variation of Trusts Act had had tax avoidance for its principal object and no one had ever suggested that that was undesirable or contrary to public policy. But, Lord DENNING said, he thought it necessary to add a third proposition: the Court should consider not only financial benefit but also educational and social benefits. Many things were more worthwhile than money; one was to be brought up in 'this our England', which was still 'the envy of less happy lands' – including, presumably, tax havens.

His lordship did not believe it was for the benefit of children to be uprooted and transported to another country simply to avoid tax. The only thing that living in Jersey could do for the infant and unborn beneficiaries was to give them even more money than the considerable fortune they already had. Many a child had been ruined by being given too much. Avoiding tax might be lawful but it was not yet a virtue. When they grew up they might want to come back to England. Was it for their benefit to make them wanderers? It was better for them to have firm roots.

Reading this judgment one might be pardoned for thinking that the application was one which sought to take the infant beneficiaries out of the jurisdiction. In fact they had already gone; and one of them was 19 years of age and therefore old enough to make up his own mind about where he wanted to live. Did Lord DENNING, perhaps, think that if the application was refused they would be brought back to this happy land where they could happily pay the enormous taxes it imposes?

Lord Justice HARMAN, in a more guarded judgment, approved of the decision of the lower Court, and Lord Justice DANCKWERTS concurred. HARMAN, L.J., pointed out that the Jersey Courts had no experience of the administration of English trusts and were not a suitable tribunal for that purpose. The bodily removal of the settlements was not a 'variation' in the ordinary use of that term. Finally, like the Court below, he was not satisfied that a change of domicile had been established.

Fulminating on Forecasts

PROFIT forecasts made in haste during a take-over bid have frequently been disproved by subsequent results. But promise and performance do not usually go so far awry as the Associated Electrical Industries' results published last week, which revealed a shortfall of £14½ million (turning a projected profit of £10 million into an ascertained loss of £4½ million), compared with the profit forecast made in October 1967 at the height of the take-over struggle with General Electric Company.

The profit forecast carried conviction then because not only was it based on nine months' accounts but the claim was made that it was not 'prepared with undue haste and speed occasioned by the offer'. Indeed, the second letter addressed to A.E.I. shareholders on November 1st, 1967, went so far as to give a detailed breakdown of the 1967 results by activity. In the public eye, this startling turn-round in so short a period of time has brought the validity of all profit forecasts into question. How did it happen?

It so happens that Lord ALDINGTON, the G.E.C. chairman, commissioned a report from Messrs Deloitte, Plender, Griffiths & Co and Messrs Price Waterhouse & Co, joint auditors of A.E.I., which isolates the significant differences between the previous board's forecast and the actual results. Broadly, the major part of the shortfall is due to the following causes:

	£m.
(1) Provisions in excess of forecast for estimated losses on contracts in progress and for further expenditure on completed contracts, in the light of subsequent reviews	4·4
(2) Amounts in excess of forecast, written off stocks for obsolescence and similar reasons ..	4·3
(3) Cost of sales (including overheads under-absorbed) in excess of the amounts estimated in interim accounts and/or forecasts	3·4
(4) Other (post-acquisition trading losses of subsidiaries acquired during 1967, additional provision against debts and miscellaneous (net))	1·7
	£13·8

In order to put these matters into perspective, the A.E.I. group had a combined turnover of some £260 million in 1967 and combined gross assets of some £280 million (at book value). Stocks and unbilled balances of work in progress accounted for some £100 million of the latter figure. The valuation of work in progress – especially where long-term contracts are concerned – always raises delicate problems of judgement as so often demonstrated by the variable annual results of most constructional and heavy plant engineers (profits rising or declining according to the number of completions falling into any one year). The two- or three-year time cycle for a typical long-term contract is, therefore, unsuited to the straitjacket of the regular annual accounts required by statute.

As the report states: 'You will appreciate that the appraisals of stocks, contracts and a number of other matters involve the exercise of judgement; they are not matters of precision'. Roughly £9·5 million is attributed to adjustments which remain matters substantially of judgment, while the balance of £5 million is attributable to adverse differences which are matters substantially of fact rather than judgement.

The report goes on to say: 'We have not found it possible to judge the extent to which these adjustments reflect a difference of approach on the part of management under G.E.C. control and therefore contribute to the shortfall an element which would not have been in the expectations of the former A.E.I. board'.

In their defence, the twelve former directors of A.E.I. issued a statement explaining the circumstances in which the forecast was prepared and the reasons why they were, and are, convinced that it was sound and realistic and would have been attained if the G.E.C. bid had not occurred. They take their stand on 'massive changes in management policy, in approach and in the policies and principles of accounting, especially in relation to the valuation of stocks and work in progress and provisions on contracts.'

The evidence certainly points in that direction since the total charges against profits in 1967 for obsolescence of stocks and provisions against contracts amounted to about 4 per cent of total turnover against 1 per cent in 1966. Moreover, Lord ALDINGTON refers conspicuously (in the Chairman's Statement on the G.E.C. report and accounts) to the fact that 'All the operating units are working in the current year to budgetary practice which conforms much more to the G.E.C. requirements of commercial and financial management'.

A forecast is, by definition, inaccurate and depends less on fact than on assumptions and probabilities. Thus the door is left wide open for a successful bidder to demolish forecasts prepared in good faith and in a manner entirely consistent with past principles by changing the basis of accounting or adopting more conservative rules about the valuation of stocks and work in progress. When all this takes place in a matter of months set against a background of transition from the old patterns of A.E.I. to the adoption of G.E.C. concepts, it is a case of the new broom sweeping clean – and it is all too easy to sweep away the profits in a bustling bout of spring cleaning!

Neither the new City Code nor a statutory body similar to the U.S. Securities and Exchange Commission could hope to deal with technical matters involving the considered judgement of management. Short of abandoning the idea of reporting on profit forecasts, the investigating accountants will have to insist upon every possible caveat being written into their report – after they have stopped gazing into their client's crystal ball.

Current Affairs

Municipal Treasurers' Examinations

THERE were 2,333 candidates for the May examination of The Institute of Municipal Treasurers and Accountants of whom 826 (35 per cent) were successful.

In Part A of the Final, 779 candidates sat and 274 (35 per cent) were successful (this compares with 33 per cent in 1967 and 28 per cent in 1966). In Part B of the Final there were 466 candidates, of whom 204 (44 per cent) passed (48 per cent in 1967 and 1966).

A total of 1,088 candidates sat for the Intermediate examination and 348 (32 per cent) passed (32 per cent in 1967 and 33 per cent in 1966).

Places and prizes will be awarded on the combined results of these examinations and those to be held in November. The names of the successful candidates in the two parts of the Final, together with a summary of the results, appear on other pages of this issue.

Progress in Secretaries' Merger Talks

THE Chartered Institute of Secretaries and the Corporation of Secretaries announced last week that very satisfactory progress had been made in their talks on a merger of the two bodies. The talks were begun in November of last year and the Presidents of both bodies have now sent a letter to their members setting out the proposed terms of the merger.

The two Councils have provisionally agreed that the members and students of the Corporation of Secretaries and all its activities shall be transferred to the Chartered Institute of Secretaries. When members have had time to study the scheme, special meetings will be convened to consider resolutions to approve the recommendations of the respective Councils. If the proposals are agreed by members – and subsequently approved by Her Majesty's Privy Council – it is hoped that the 'operative date' of the integration will be January 1st, 1970.

The Chartered Institute of Secretaries was founded in 1891 and incorporated by Royal Charter in 1902; it has a membership of 30,854, and students number 21,921. The Corporation of Secretaries was established thirty-one years later – in 1922 – and has a membership of 11,597; there are 19,414 students.

If the merger proposals go through, the enlarged Institute will comprise over 42,000 chartered secretaries and a student body of over 41,000. It will become the only professional body representing secretaryship, including general administration, and it is felt that it will be able to exert a greater influence in the interests of its members and of the public generally. It is hoped, too, that it might strengthen and support the possibility of eventual statutory recognition.

What is Income?

WHEN a child 'is entitled in his own right to an income exceeding £115 a year' his parents' entitlement to child allowance is cut down (Income Tax Act 1952, section 212 (4) as amended). What is income?

The Revenue argue that it includes money which is not chargeable to income tax under the Income Tax Acts. But in *Mapp v. Oram* they failed in this argument both before the Special Commissioners and in the High Court (46 A.T.C. 231). They then appealed to the Court of Appeal which, by a majority, allowed the appeal but held that certain deductions had to be made, being deductions which would not have been permissible if the income were assessed to Schedule E tax, and remitted the case to the General Commissioners to determine the amount. This decision was the subject of a leading article in *The Accountant* of May 25th, and further reported in the issue of June 29th.

The Revenue then asked the Court for leave to appeal to the House of Lords on this latter point. This the Court refused, but the Revenue have since gone to the Appeal Committee of the House of Lords and have obtained leave. At the same time the Appeal Committee gave Mr Oram leave to cross-appeal on the main point, and the Revenue undertook to pay the costs of this appeal whether he won or lost.

Finance Act 1968

THE Finance Act 1968 received the Royal Assent on July 26th, and was published last Friday (H.M.S.O., price 12*s.* 6*d*). With no less than eighteen pages more than the original Bill which appeared in March, it has a total of 129 pages, compared with 110 for the Finance Act 1967, 123 for the 1966 Act, and 271 pages for that of 1965. Nor does this mean that much of the old legislation has been replaced; it has merely been added to. The extent of the repeals in the new Act is minimal.

It is no secret that the Inland Revenue cannot even cope with the massive problems thrown up by the Finance Act 1965, three years ago. Questions about capital gains tax liability go unanswered for months. As in so many other fields, there is a deluge of legislation with inadequate numbers of people to carry it out. Complex new laws, including a completely new and onerous tax called 'the special charge', are imposed under the guillotine procedure without any discussion being permitted.

In the field of taxation hardly any transaction, however innocent, can now be entered into with safety without exhaustive investigations into the jungle of anti-avoidance provisions which has sprouted up in the last four years. Thus more and more people are spending more and more time on studying the new tax laws, and correspondingly fewer people are doing socially useful work. If none of the changes made by the last four Finance Acts had come about, it is doubtful whether anyone would have been any less happy.

However, the new Act has to be coped with along with the others, and to assist in this *The Accountant* Synopsis of the Finance Act 1968 will be included as a supplement to next week's issue.

Part-time Teacher is Self-employed

AS National Insurance contributions and selective employment tax climb higher and higher, the attractions of an individual being self-employed grow greater. On July 19th, Mr Justice Roskill delivered a judgment dismissing an appeal against a decision that Mr Albert Edward Argent was a self-employed person within section 1 (2) (*b*) of the National Insurance Act 1965.

Mr Argent was a part-time teacher of drama at the Guildhall School of Music and Drama. He had no written contract and was paid on an hourly basis and he was allowed to leave the school and work with the Royal Shakespeare Company and at the Mermaid Theatre. He had no administrative or disciplinary duties at the school. The question arose as to which of the contribution classes he came under as contained in section 1 (2) (*a*), (*b*) of the Act, which are:

'(*a*) employed persons, that is to say, persons gainfully occupied in employment in Great Britain, being employment under a contract of service;

'(*b*) self-employed persons, that is to say, persons gainfully occupied in employment in Great Britain who are not employed persons'.

His lordship said that there had been a change of emphasis over the past twenty years so that control by the employer was no longer the decisive factor. It was unreal to regard Mr Argent as employed under a contract of service. Otherwise the same would be applied to a barrister who taught part-time or at week-ends.

Effect of Taxes on Low-income Households

THE recent recommendation of the Cost of Living Advisory Committee to introduce new retail price indices for pensioner households whose incomes are predominantly from welfare benefits, is given further support by the findings of a new inquiry into the circumstances of low-income households.

An article in *Economic Trends* for July, published last week, throws new light on the incidence of taxation upon low-income households and the benefits they derive from the social services. For example, in 1966 one-person pensioner households with incomes under £216 per annum which had an average income of £144 per annum had supplementation from cash benefits and benefits-in-kind which brought the aggregate average income, after taxes, up to £278.

Pensioner households with two adults whose income was below £216 per annum had an average income of £116 lifted to £527. The bulk of the increase was accounted for by retirement, old age, and widows' pensions, but taxes – more especially indirect taxes – reduced the annual income to £451

Poverty is not, however, restricted to such pensioner households; households with children but with low incomes often experience hardship. The same survey produces figures relating to such households and the effects of welfare benefits in cash and in kind. For example, in a household comprising two adults and two children, a basic income of £14 per week is effectively raised to nearly £19 per week, after allowing for direct taxes and benefits, but reduced to £16 after indirect taxes.

In the case of households with two adults and three children, an original income of nearly £18 per week is cut to £15 per week after deduction of income tax and national insurance contributions. Cash benefits are equivalent to less than £2 per week and benefits in kind, including education, to well over £5 per week. The effective real income is thus brought up to £23. But despite an annual housing subsidy of some £13, indirect taxation, including local rates, takes nearly £4 per week.

Such statistics have obvious limitations, more especially the difficulties of determining the incidence of indirect taxes by income groups. Also the new data are, in most cases, based on very small samples.

Slow Reform of Leasehold Reform

A GOVERNMENT spokesman told the House of Commons last week that the Minister of Housing 'will seek an early opportunity to remove the uncertainty about service charges' in the case of long leases. (See 'Injustice to Tenants', *The Accountant*, July 6th, page 4.) By bringing long leases within the Rent Acts, the Leasehold Reform Act 1967 has imposed hardship on persons who have paid high premiums for the leases and now are prevented from recovering those premiums on resale, because the service charge brings the total rent up to the statutory two-thirds. The Ministerial reply shows little sense of urgency and this must be galling to the unfortunate victims of the Act.

Bankruptcies in 1967

A TOTAL of 4,029 receiving orders and administration orders were administered in England and Wales in 1967 – an increase of 323 compared with 1966 – according to the Board of Trade's *Bankruptcy General Annual Report for the Year 1967* (H.M.S.O., price 5*s*).

The principal groups of trades and occupations affected were builders, directors and promoters of companies, farmers, grocery and provision retailers, painters and decorators, road haulage contractors, hotel keepers and publicans, restaurant and snack bar proprietors, confectioners, tobacconists, newsagents and general stores proprietors. These ten groups accounted for 1,689 failures.

The number of estates in which official and non-official trustees were released in 1967 totalled 3,546 as compared with 3,290 in 1966 and 3,724 in 1965. Details are given in the report of the final financial results of their administration.

The report also contains details of the result of 729 debtors' applications for discharge dealt with during the year (814 in 1966); of the 218 prosecutions concluded in respect of bankruptcy and other offences reported by the Official Receivers (189 in 1966); of the 160 deeds of arrangement registered in 1967 (200 in 1966) and of the 167 deeds of arrangement in respect of which final accounts were rendered (230 in 1966).

Building Societies Report

A SPECIAL feature of the 1967 report on building societies from the Chief Registrar of Friendly Societies, published recently (H.M.S.O., price 8*s*) is a statistical article about societies in Northumberland and Durham, based on 1966 figures.

Societies are liable to corporation tax on their annual surplus and on any chargeable gains, e.g. profits on realization of investments. The amount charged for corporation tax in 1967 was £18,149,000; the amount for selective employment tax is not known. In addition, the societies pay income tax at a composite rate on interest credited to their investors; the rate for 1966–67 and 1967–68 was 6*s* 3*d*. However, surtax payers have to pay, in addition, surtax on the net amount grossed up at standard rate.

Of the total management expenses of societies, over 51 per cent is represented by remuneration and expenses of staff. Another 20 per cent is for office expenses and expenditure on office accommodation, not including capital expenditure or depreciation. Over 6 per cent of the total management expenses was for advertising, while something over 12 per cent went in commission and agency fees. Management expenses worked out at 12*s* 3*d* per £100 of mean total assets at the beginning and end of the year, this being the lowest since 1963.

The year 1967 was, as might be expected, a record year for the building society movement. Total assets increased during the year by £1,140 million to £7,446 million. This was a rate of increase of 18·07 per cent, compared with 14 per cent in 1966 and 13·76 per cent in 1965. The larger societies grew more rapidly than the others. Subscriptions to share and deposit capital totalled £1,997 million and the amount advanced on mortgage during the year amounted to £1,463 million. Although the movement is expanding, the number of societies continues to contract owing to mergers.

West European Taxes

THERE will be few readers of this journal who are not already familiar with the Confederation of British Industry's excellent annual publication *Taxa-*

tion in Western Europe (35*s* net). The 1967 edition contains the same outlines of the national tax systems as in previous editions on the West European countries, together with the rates of tax charged.

The authors have avoided the very real danger, which exists with such a publication, of extending their summaries while at the same time adding nothing to the clarity of exposition. Since the avowed purpose of this work is to provide industrialists with a guide to the structures of European competitors, any attempt to increase the detail to the point at which a tax practitioner would find the work a useful reference source would be a mistake. Nevertheless, the practitioner would find this a handy source for reminding him of the main features. If, however, this particular user is to be borne in mind when compiling future editions, then for each country a couple of model computations, for example on personal and corporate tax, would be welcome and increase its already very considerable utility.

This is My Life

by An Industrious Accountant

I WAS hurrying back from lunch when Prinny intercepted me. 'Have you got just a moment or so for a query on surtax allowances?' he beamed. 'We can sort it out in your office.' Without slackening his pace he strode through my secretary's little room, turned my door handle and simultaneously thrust his shoulder against the panel. He obviously expected the door to fly open.

The door didn't oblige. It shivered and creaked, but it held fast. Prinny let go an unseemly naval expletive and rubbed his shoulder gingerly. 'Why the so-and-so do you keep your door locked?' he rasped.

I didn't *keep* it locked, I reassured him mildly. On this occasion, however, I had been writing up the month's salaries for the directors and senior staff and owing to sundry interruptions had failed to finish them before lunch. Naturally I couldn't leave all the confidential documents lying around in my absence, so – just for once – I locked my door and went my way.

The director fumed more than somewhat. 'It's not quite the thing, old chap,' he rumbled. 'It looks bad, what? Autocratic, you know. Staff trying to get in may feel slighted, dash it, as if you didn't trust them. Much better to push the damn dockets into your desk in the first place and lock that instead of the door.'

It wasn't that easy, I remonstrated. There were more than just dockets involved. There was the big Kalamazoo folder, and P.A.Y.E. certificates, and duplicate slips, and mandates for insurance premiums deductible, and for credits to staff personal purchase accounts, and carbon paper, and envelopes, and so on . . . locking the door was quick and simple.

Prinny, far from mollified, interrupted peevishly. Dash it all, he said, it was rank bad for morale. Chaps didn't like having doors locked against them; it was liable to provoke psychologically regressive hostility in a modern democratically-oriented industry. Small snubs rankled, what? Employee relations were dashed ticklish nowadays!

My comment that chief accountants, of all people, were entitled to have secrets and that chaps as ticklish as all that had better see psychiatrists before they had convulsions, didn't improve the argument and we parted on slightly acidulated terms.

An hour later, the salaries just completed, I slipped across the passage to Staff Personal Accounts to sort out an excess deduction against the sales manager's entertainment expenses account. I left both doors open so as to watch for visitors, and sure enough my doorway was almost immediately blocked by the deputy-chairman's burly figure. Back again I went to find him standing in the middle of the floor with a distinctly ill-tempered expression.

'Do you usually leave your door open with all the confidential salaries plastered across your desk?' he asked, with an unsuccessful attempt to sound casual. 'My car expenses deductions are meant to be confidential, and there they are spread out for any bally outsider to see if he comes in. I certainly didn't expect anything as loose as that to be going on.'

A touch of amused tolerance, with a dash of respectful courtesy, seemed indicated to ease out the tension and I added a soupçon of brisk efficiency for good measure. Merely a momentary absence across the passage; absolutely no laxity; anyhow our staff weren't the type to pry into private papers.

Somehow in spite of all the special ingredients, my tone sounded just plain resentful, and the D/C was patently annoyed. Twice in the present year he's had complicated but costly episodes with company-owned cars involving monthly repayments from salary, and he detests the thought of his misadventures being publicized. He unburdened himself of some aspersions on staff reliability, took a side-swipe at 'those so-and-so nosey-parkers' who rant about disclosure of directors' emoluments, and stalked out again muttering about 'the good old days', without a word on what he came in about.

To Be, or Not to Be – Unlimited

by CAPTAIN J. R. NICOLL, A.C.I.S.

EXEMPTION status for private companies was abolished by section 2 of the Companies Act 1967 as from January 27th, 1968. Accordingly, the privilege of privacy enjoyed by this type of company is at an end unless action is taken by those under whose direction such companies are carried on to convert to unlimited or to partnership status. Otherwise it is now obligatory for them to file with the Registrar of Companies, together with their annual return, within twenty-eight days from the date on which the general meeting was held, in respect of any financial year ending after January 27th, 1968, copies of their balance sheet, profit and loss account and directors' report.

This brings them into line with the requirements imposed on public companies and accordingly, no limited company engaged in business or commerce, private or public, can lawfully conceal its assets and liabilities or profits and losses from the public view, because they are available for inspection at the office of the Registrar by anyone so minded to pay the very modest fee to examine them. So they are open to the full blast of publicity, and competitors may not be slow to take advantage of this facility.

Nearly 400,000 companies now file accounts

The number of companies concerned may be gauged from the number of private companies on the register and the number of exempt private companies, in particular, based on the figures for 1966, as stated in the Companies General Annual Report issued by the Board of Trade last August. As on December 31st, 1966, the total number of companies registered (excluding those in liquidation or in course of removal) was 527,260, which comprised 15,298 public and 511,962 private companies. Of the total of private companies registered at that date, 382,528, or 77 per cent, were exempt private companies.

This very large number of private companies from which exemption status has now been withdrawn, if 1966 is any guide, shows that many directors have much to deliberate upon as to whether to submit to the public disclosure of their company's assets and liabilities and profit and loss accounts, or to convert to unlimited liability or to partnership status and retain their privacy.

Contrary, however, to what has been considered to be the result of the new measure, there has been no immediate rush of registrations by previously exempt private companies to lodge particulars of their assets and liabilities, profit and loss accounts, and directors' reports. In fact, those companies which filed annual returns just before January 27th last need not file their next annual accounts until at least a year thereafter. For section 124 of the principal Act (the Companies Act of 1948) provides that every company having a share capital must at least once in every year make a return containing a list of all persons who, on the fourteenth day after the company's annual general meeting for the year, are members of the company, and of all persons who have ceased to be members since the date of the last return, (or in the case of the first return, since the incorporation of the company) in accordance with the Sixth Schedule to that Act; also a summary of share capital and debentures issued, etc.

Section 131 of the 1948 Act further requires that every company must in each year hold a general meeting, in addition to any other meetings in that year, as its annual general meeting, not more than fifteen months after the holding of the preceding annual general meeting.

There is accordingly ample time in which to deliberate on the consequences of the new legislation and its impact upon each ex-exempt private company, large or small, family or otherwise, and upon whether privacy is an asset to the company's future conduct or not. It was recently reported that at least some four hundred previously exempt private companies had already decided to avoid registering details of their assets and liabilities, and filing their profit and loss accounts and directors' reports, by re-registering as unlimited companies under section 43 of the 1967 Act. The number contemplating this action may be considerable. Other, perhaps smaller, companies may convert to partnership status.

Re-registration as unlimited

Section 43 of the 1967 Act provides a simple process for the re-registration of a company as unlimited. An application in that behalf, complying with the requirement of subsection (2) framed in the prescribed form, and signed by a director or by the secretary of the company, is required to be lodged with the Registrar of Companies, together with the documents mentioned in subsection (3).

Subsection (2) requires that the application must:

(*a*) *if it is to have a share capital*, set out such amendments to the articles as are requisite to bring it, both in substance and in form, into conformity with the requirements of the principal Act (the 1948 Act) as in the case of altered articles.

(*b*) *if it is not to have a share capital*, set out such alterations and additions as are requisite.

(*c*) *if articles have not been registered*, have annexed thereto with a request for the registration of, the printed articles stamped as for a deed.

Subsection (3) provides that the documents required in support of the application are:

(*a*) the prescribed form of assent to the company's being registered as unlimited by or on behalf of all the members of the company;

(*b*) a statutory declaration made by the directors of the company that the persons by whom or on whose behalf the form of assent is subscribed, constitute the whole membership of the company, and if any of the members have not subscribed that form themselves, that each person who subscribed it on behalf of a member was lawfully empowered to do so;

(*c*) a printed copy of the memorandum incorporating the alterations therein set out in the application; and,

(*d*) if articles have been registered, a printed copy thereof incorporating the alterations and additions set out in the application.

Alterations of memorandum and articles

The Registrar of Companies retains the application and supporting documents, and if articles are annexed to the application, will register them and issue a certificate of incorporation appropriate to the unlimited status to be assumed by the company. Upon issue of that certificate:

(*a*) the status of the company is, by virtue of such issue, changed from limited to unlimited; and

(*b*) the alterations in the memorandum set out in the application, and (if articles have been previously registered) any alterations and additions to the articles so set out, take effect as if duly made by resolution of the company, and the provisions of the principal Act apply to the memorandum and articles as altered or added to.

The certificate of incorporation as an unlimited company is conclusive evidence that the requirements of section 43 as regards re-registration and of matters precedent and incidental thereto have been complied with, and that the company was authorized to be re-registered under the principal Act, and accordingly re-registered.

It is also provided that where a company is re-registered as unlimited, a person who at the time when the application for it to be re-registered was lodged, was a past member of the company and does not again become a member, will not, in the event of the company's being wound up, be liable to contribute to the assets of the company more than he would have been liable to contribute had it not been so re-registered.

It is further provided that subscription to a form of assent by a legal personal representative of a deceased member of a company shall be deemed to be subscription by him; and a trustee in bankruptcy of a person who is a member of a company shall, to the exclusion of that person, be deemed to be a member of the company.

The amount of the share capital must be stated in the articles instead of in the memorandum and the articles must also state the number of members with which the company proposes to be re-registered. Thus assent by all the members is necessary, and this would imply that the number of members is not large. Also a good deal depends on the type of business and its profitability because it is obvious that all the members would not agree to lose the advantage of limited liability if to undertake unlimited liability would appear hazardous.

On the other hand there are many businesses whose number of members is not large, whose financial position is very strong, and whose business has been built up to a large extent by virtue of the privacy it has enjoyed – because, perhaps, much more has been earned by its operations than has been distributed – and the members may want to keep it that way. To such a company, thriving on such circumstances, wishing to pursue the same course in sureness of their own strength and purpose, and to keep competitors from knowing too much, the change-over to unlimited status may well be the answer.

So, although the 1967 Act has closed the door by section 2, it may be considered by many in whose care lies the direction of a company which has lost the privacy of exemption, that section 43 of the same Act is the door through which that privacy may be maintained.

It may perhaps be emphasized that conversion from limited to unlimited does not involve the creation of a new company, but merely a change of status of the limited company. Accordingly, there is no question of any necessity to renew existing service or other contracts.

Partnership status

Where the number of members in a former exempt private company is not large, as in the case of a private company where the members of a family comprise a considerable proportion of its shareholders, the other course which is open to them to retain the privacy of their business is by conversion to a partnership.

This necessitates winding up. However, under the 1948 Act, the winding-up of a solvent company by way of members' voluntary liquidation is a simple process, being carried out on behalf of the members themselves as a domestic matter. The first thing to be done is for the directors – or a majority of them where there are three or more – to have a statement of affairs prepared to see if the company can pay its debts in full within twelve months. If the financial position is satisfactory and this can be done, a statutory declaration of solvency is made by all, or a majority of the directorate, who state that they have made a full inquiry into the company's affairs and are of the opinion that the company will be able to pay its debts in full within twelve months.

Role of the liquidator

This declaration must be made within five weeks immediately preceding the date of the company passing the resolution to wind up voluntarily, and must be delivered to the Registrar of Companies before such resolution is passed. The declaration must be accompanied by a statement of the company's affairs, i.e. its assets and liabilities, in the prescribed form as at the last practicable date before the making of the declaration. Then at a duly convened meeting of members of the company, the special resolution for the members' voluntary liquidation is required to be passed by a three-fourths majority of members present and voting, pursuant to section 278 (1) (*b*) of the 1948 Act. A liquidator may be appointed by an extension of the same resolution, or by an effective following resolution.

The liquidator is thus appointed by the members and his appointment requires no confirmation by the creditors (though it is customary formally to notify them) because he is appointed for the purpose of the beneficial winding-up of the company on the members' behalf. The liquidator must give notice of his appointment to the Registrar within fourteen days, notwithstanding that the resolution to wind up includes the appointment of the liquidator and has been gazetted.

It should be stated that an essential element is that there must be powers contained in the articles to enable it to so resolve, for without such powers it is necessary for the company in general or extraordinary meeting to pass a special resolution to write such power into its articles.

As soon as the affairs of the company have been wound up, the liquidator must summon a final meeting of the company, (*a*) to receive and consider the liquidator's report on the winding-up; and (*b*) to pass a resolution, if necessary, disposing of the books.

It is not necessary to send notice of the final meeting to members, but notice specifying the time, place and purpose of the meeting must be advertised in the *Gazette* at least one month before the date. Procedure at that meeting is otherwise the same as that to be observed at annual meetings of the company.

Within one week after the meeting, the liquidator must file with the Registrar a return of the holding of the meeting together with a copy of his liquidation account, or if no quorum was present, a return to that effect. The company is deemed to be dissolved on the expiration of three months after the Registrar has registered the liquidator's final account and return of the final meeting.

Therefore, for a company with sufficient liquid resources to enable it to discharge its liabilities and the liquidation in the hands of an accountant having adequate experience of the business, the winding-up process should not take long. Subsequently, the drawing up of a deed of partnership to meet the requirements of a body of partners whose numbers are not large, and its financial position being strong, there should be no obstacle to those so minded to carry on their business in the privacy of partnership.

Taxation and other considerations

The tax advantages of a partnership as against a limited company are that profits in the former are assessed to income tax and surtax as earned income, whilst those of a close company may suffer for tax purposes by the restriction on directors' remuneration plus a liability to shortfall on distributions.

Subject to the complicated system of relief in cases of retirement under section 2 of Schedule 10 to the Finance Act 1966, capital gains made by a company are taxed twice; first in the hands of the company, and again in the hands of the members. There are therefore tax advantages in a partnership, with particular reference to family investment companies.

Generally speaking, these should be wound up with comparison of current quoted investment prices against those at April 6th, 1965, for, in many cases there will be little liability for capital gains thereon. However, this point is requiring careful study. Further, in connection with the remaining assets on distribution on winding up, capital gains tax might arise on the difference between a current market valuation and original cost or the statutory valuation on April 5th, 1965.

Particular points to be kept in mind in considering a change in status may be summarized as follows:

(*a*) loss of limited liability protection;

(*b*) capital gains tax liability on assets realized or transferred;

(*c*) opening years' assessment basis for a partnership;

(*d*) possible balancing charges in final capital allowance computation of the company;

(*e*) double capital gains tax on gains distributed.

But is it Ethical?

1. On Fees

CONTRIBUTED

These articles are based on the author's understanding of the usages of the profession as a whole and do not relate exclusively to any particular professional body. The opinions expressed are those of the author, and would not necessarily be endorsed by the governing bodies of the profession in a particular case.

IT can safely be said that few topics are liable to provoke more animated, if not actually acrimonious, discussion among practising accountants and among their clients than that of professional charges. The accountant must consider not only his own livelihood but also how to attract and retain staff of suitable calibre, whereas the client is not always sufficiently convinced of the benefits of skilled professional advice.

Basis of charge

It is well established that, for most categories of professional work, the proper basis is by reference to the time devoted to the work and the seniority of staff necessarily engaged upon it; and this, as a general principle, is hardly open to objection.

The word 'necessarily', however, is of some importance. Where the work demands the personal attention of a principal or qualified senior, it should be costed accordingly; but the accountant who under-occupies his staff on work within the capacity of junior grades not only runs the risk of losing them to other offices where their abilities will be better appreciated, but is also committing an extravagance for which the client can hardly be expected to pay.

Within the general principle stated, practitioners are normally free to establish their own rates for different categories of staff and it is by no means obligatory to use the same charging rates for all jobs. There is, for instance, no ethical objection to charging a substantially higher rate for work which demands an exceptional degree of responsibility, or which is of a degree of urgency necessitating priority of attention.

It is not within the scope of the present article to attempt an exhaustive list of the circumstances in which enhanced fees may be justified, although prospectus reports and back-duty investigations – both of which necessarily involve the detailed examination of transactions extending back over a number of years, often against a strict time limit – would appear to be conspicuous examples.

When a considerable volume of work is involved, extending perhaps over a period of months, an accountant is perfectly entitled to ask his client for some form of progress payment as the work proceeds; although, as a practical rather than an ethical point, it will be easier to do so if the possibility has been mentioned to the client when first taking his instructions. Likewise it is not unethical, in the unhappy event of a fee account remaining unsettled beyond a reasonable time, for the accountant to indicate that he is unable to devote further time to that client's affairs until payment is made.

The question is sometimes asked whether accountants are under any duty to disclose their charging rates per hour, or per diem, to their clients. It is not usual, nor perhaps desirable, for this information to appear on a fee account in the first instance; but a client who receives what appears to be an unreasonable bill is perfectly entitled to request an explanation, and if necessary to contest the bill in Court. It can only be suggested that the accountant who is involved in a fees dispute should decide for himself what information he can give before matters reach this last resort.

Payment by results

To the limited extent indicated above – in connection with exceptional responsibility or urgency – it is not improper for an accountant to have regard to the value of the work to his client. There are also certain fields of activity, such as bankruptcies, liquidations and receiverships, in which remuneration on a percentage basis is sanctioned by statute or long-established custom.

With these exceptions any form of 'payment by results', as the term is commonly understood, is discountenanced by the principal professional bodies, and has in the past given rise to disciplinary proceedings. It would, for example, be considered unprofessional either to tender for taxation work at a percentage of any repayment received, or to base the fee on such a percentage, whether or not the client approved of the proposal. It is surely sufficiently obvious that such an approach may yield a fee which is wholly disproportionate (either above or below) to the amount of work and responsibility involved. Moreover the most valuable commodity which the professional man offers to his clients is independence of thought, which is immediately sacrificed if he has a direct financial interest in the outcome of his advice.

It sometimes becomes necessary to explain to a client why, for example, in a problem involving 'residence' for taxation purposes a fee may be payable for a year in which no tax is due, or why the amount of an audit fee bears no direct relation to the turnover or the net profit. Unfortunately, in dealing with the smaller client who relies on his accountant only to avoid (not to use a stronger word) as much tax as possible, and whose conception of ethics is correspondingly scanty, the profession is subject to the competition of unqualified practitioners amongst whom 'payment by results' is rife. To educate the public to appreciate the risks inherent in entrusting their affairs to persons not bound by any ethical code is inevitably a slow process, although perhaps the recent decision in *Clixby v. Pountney* may help (46 A.T.C. 398).

Abortive work

Consideration of 'payment by results' leads naturally to the question of abortive work. It is possible for an accountant to devote many hours to a project which may be nullified by a change in his client's plans, by subsequent legislation, or by the intervention of a third party. Sometimes, also, the situation is aggravated by the client contending that the accountant should have anticipated the particular circumstances which rendered the work abortive. There is, ethically, not the slightest objection to the accountant rendering a proper fee in respect of time devoted to such work, and whether he is prepared to reduce the amount below that which might have been charged had the project succeeded is entirely for his own consideration.

Some accountants receive commissions, e.g. on insurance or Stock Exchange business placed on behalf of their clients. Whilst it is certainly arguable that such percentages are sanctioned by long-established custom, this view is not universally accepted and it is an offence against the fundamental rules of The Institute of Chartered Accountants in England and Wales for a member to pay or accept a commission without the knowledge and consent of his client. There appears, however, to be no conclusive guidance as to the circumstances in which a client's consent may reasonably be inferred, nor have any recent disciplinary proceedings on this ground been reported.

One interpretation of the rule as relating to insurance business is that consent should be obtained when the policy is first negotiated, but not necessarily at each renewal. It is certainly possible to respect the views of those practitioners who decline such commissions in any circumstances, nor is it always pleasant for an accountant to be open to the suggestion that his investment advice to clients is conditioned by regard for those insurance companies for whom he happens to hold an agency.

Amount of fee

It is not unknown for a client to compare the amount of his accountant's fees with those charged to his acquaintances by other firms; and sometimes to complain on the strength of such a comparison of having been overcharged. The governing bodies of the profession have not laid down any scales of fees which are of general application, and are correspondingly loath to express opinions on the amount of a fee in a particular case.

There are quite valid reasons for differences in the charging rates adopted by practitioners. For example, it may not always be an economic proposition for a large firm of accountants with an international reputation and a skilled and highly-paid staff to accept the instructions of a small surburban or provincial client. Some practitioners tend to specialize in meeting the needs of particular trades and are not well placed to deal with matters outside that specialization. Again, it is debated within the profession whether typing and other office assistance should be directly chargeable to jobs or whether it should be recovered as part of an overhead charge.

Some guidance is available in the form of the 'Treasury scale', although this is directly appropriate only for work undertaken on behalf of Government departments; not, it would appear, for nationalized industries or other public corporations. To imply that the Treasury scale is in any way endorsed by either the professional bodies or the Government for general professional work is tantamount to misrepresentation. It is nevertheless sometimes used as an indication of the minimum rates for professional work not presenting any exceptional features – but in view of its limited direct application, it should not be cited to other clients as an 'approved' scale.

Most practitioners have a few clients for whom – for personal or charitable reasons – they are prepared to undertake work either honorarily or at fees materially below their normal charging rates. There is no ethical objection to this and the accountant is quite free to use his own discretion in granting such concessions in a particular case. It may be noted in passing, although not strictly an ethical point, that members of the profession are expected to bring the same standards of skill and diligence to honorary work as to remunerated work.

Quoting a fee

An accountant is sometimes asked by a prospective client to quote a fee for his services and there is no reason why he should not do so, always provided that his quotation represents a genuine pre-estimate of the work involved. It is often extremely difficult to establish this before the first year's work has been performed, and it is suggested that this should be made quite clear to the client since, although such quotations and estimates are not normally regarded in law as a contractual representation, an embarrassing situation may arise if the fee account is for a materially larger sum.

Further, when such an estimate is given it should be explicitly stated what services it is to cover. The 'Martyred Accountant' whose diary so delighted readers of *The Accountant* about ten years ago had, it will be remembered, a client who expected to have three-quarters of his book-keeping done for a bare audit fee, and this gentleman is by no means an isolated phenomenon.

One form of pre-estimating the cost of the work to a client, which some practitioners find particularly objectionable, is the practice of certain local authorities in inviting tenders for their audits. It is not within the

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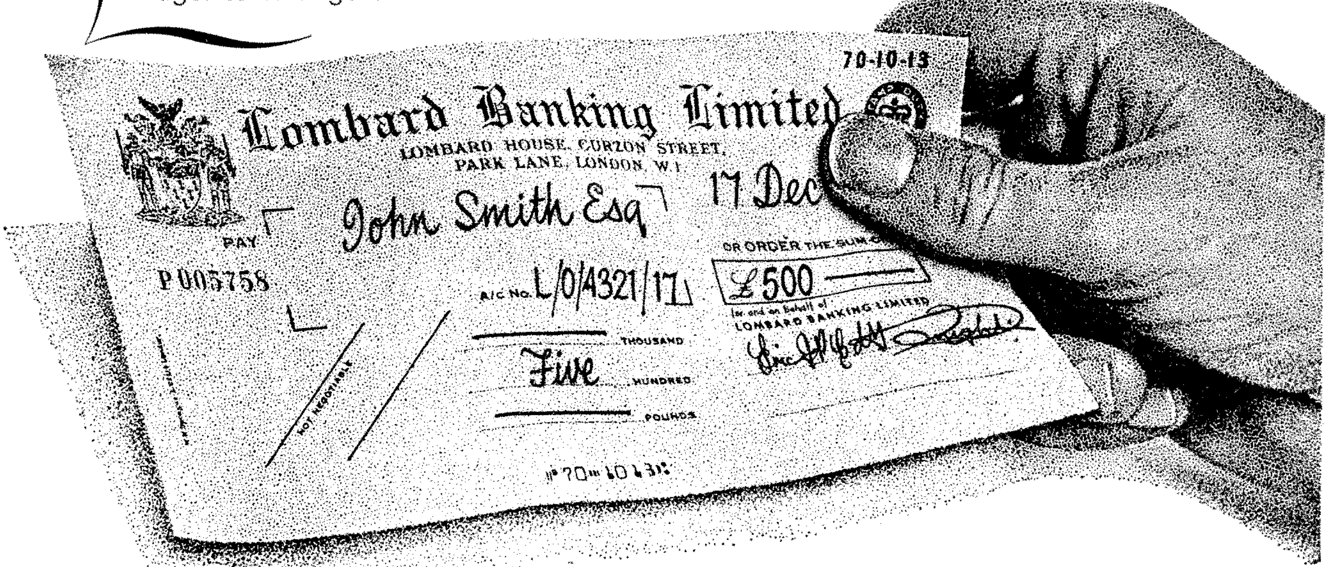

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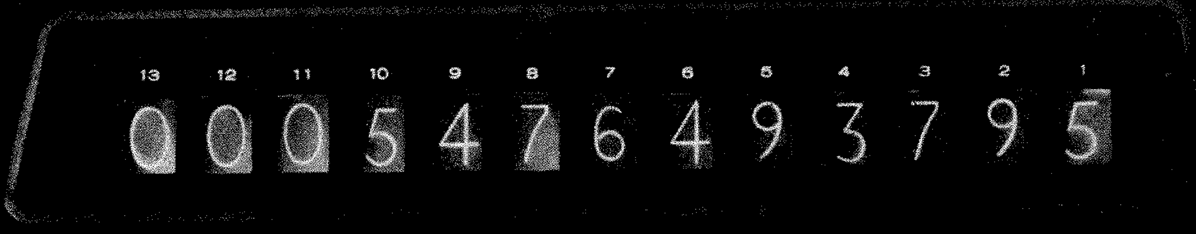

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present terms of reference to discuss either the reasons causing local authorities to adopt this principle, or the desirability or otherwise of a concerted opposition to it by the profession; suffice it to say than no practitioner is obliged to submit such a tender, and equally that he incurs no ethical censure by doing so – provided, of course, that his tender represents a genuine assessment of the work involved and is not a deliberate attempt to undercut the fees of others.

Fee-cutting in principle is frowned upon by the governing bodies of the profession. In practice, it is an offence which is very difficult to establish and reported disciplinary proceedings are correspondingly rare. As mentioned above, there is no impropriety in differences in charging rates between firms, and an accountant who quotes a fee based on his own standard scales does not commit a professional misdemeanour by reason only that this happens to be less than that already charged by another practitioner. To establish fee-cutting, it must be shown that the offender knew of the existing fee *and deliberately* undercut it with a view to inducing the client to transfer his instructions. Some practitioners are very sensitive upon this point.

Disputed fees

Regrettably, disputes arise over fees from time to time and of a kind which the parties are unable to compose. It is not considered unprofessional for an accountant to issue a writ in his local County Court (or, if the amount is large enough, in the High Court) for the recovery of unpaid fees in the last resort; he must, of course, be prepared to produce his time records and otherwise to establish that the amount claimed is reasonable.

As an alternative to litigation it is open to the parties to seek arbitration if both are agreed on such a course. The professional bodies may assist by nominating an arbitrator on request but are unable to impose arbitration in the absence of mutual consent. The procedure for 'taxation' of law costs – under which a solicitor's disputed bill of costs may be examined in detail by a Taxing Master of the High Court – is peculiar to the Law Society and has no exact counterpart within the accountancy profession.

Ill-feeling is sometimes aroused by an accountant withholding his fees at source from a client's funds, most commonly a tax repayment. Deduction at source is to be deprecated unless the client has assented to the arrangement; but there may again be practical difficulty in deciding whether such assent can be implied from circumstances. If the client feels strongly enough on the point, it is open to him to proceed against the accountant for conversion, and the success of such an action against a member of any of the leading professional societies would in all probability be regarded as a prima facie cause for disciplinary proceedings.

Trust funds should, in any event, be held in a separate account and to appropriate such funds other than in strict accordance with the provisions of the trust instrument would be both legally and ethically objectionable. (By way of analogy it may be noted that the Solicitors' Accounts Rules preclude a solicitor from appropriating a client's funds in settlement of his professional charges, unless a bill of costs has been rendered to the client *and* the client has also been informed of the proposal to apply funds held to his credit in settlement of the bill.)

Lien

It may not be inappropriate to mention at this point the question of lien. A lien is, in general terms, the common law right of the bailee of a chattel to retain that chattel as security for payment of his charges in respect of work done upon it; and an accountant may thus have a lien upon the books and papers of his client (*Re Hill, ex parte Southall* (1848) 17 L.J.R. (Bankruptcy) 21). The general principle has to some extent been eroded by legislation, particularly the rights of access to books of account which are given to the directors or liquidator of a limited company, and legal advice may be necessary in all but the simplest cases.

When a client has indicated that he proposes to take his work elsewhere, an accountant who is claiming a lien for unpaid fees may indicate that he is not prepared to release any information to his successor until those fees are paid. In such circumstances, the client may feel that he is being unfairly held to ransom for whatever sum the outgoing accountant chooses to demand – particularly when the client has bona fide reasons for disputing the fee, or the accounts are urgently required in support of a tax appeal – and complain to the accountant's professional society.

It is not, however, the practice of professional bodies to invoke their own sanctions if a legal remedy exists on the same facts; and on general principles there would appear to be nothing to prevent the client from taking the legal initiative by instituting proceedings for the return of his books, accompanied perhaps by a reasonable payment into Court on account of the disputed fees. Similarly, whilst accountants are not ethically debarred from exercising the right of lien in a proper case, it is not inconceivable that a spurious claim could form the basis of a charge of discreditable conduct.

Outstanding fees of predecessor

The position of an accountant who is asked to accept instructions whilst fees are due to his predecessor will be more fully considered in a subsequent article, but as a point of professional courtesy he should not attempt to interfere with any lien which his predecessor may have. This principle should not be too widely construed and applies only to actions directed towards obtaining physical possession of or access to the books. For example, to reconstruct the opening entries in a private ledger from a copy of the previous year's balance sheet and whatever other information may be to hand would not constitute 'interference', although it might reduce the value of a lien over the existing ledger.

The Companies Act 1967 in Practice – I

Problems Arising from the Disclosure Provisions

by E. R. NICHOLSON, F.C.A.

Introduction

LET us be clear from the beginning that this paper is not a treatise on company law; it is an attempt by someone who has worked for many years with past Companies Acts at his elbow and with colleagues, similarly equipped, readily available for consultation, to suggest from that experience the nature of the problems emerging from the 1967 Companies Act and the methods by which they may be overcome.

2. Neither is it designed as a section by section review of the Act; there have already been published several commentaries of this type. In order to furnish breadth of coverage in ready reference form, however, I am including a copy of my firm's 'Check List – Companies Acts 1948–1967' as an attachment to this paper. This is designed to act as a reminder on the various points arising under both Acts and current Stock Exchange regulations in regard to quoted companies which might be overlooked in preparing or auditing final accounts; we have had it printed so that one copy should be completed in reference to each audit. So far as it relates to the Companies Acts, it is based very largely on the Institute's booklet and incorporates Stock Exchange requirements where appropriate. It contains supplementary lists with reference to Stock Exchange recommendations and examples of special circumstances affecting liability to taxation. Here and there the Check List contains footnotes which may be of assistance in reference to some of the minor points.

3. This, I hope, leaves me free to deal with points of interest or difficulty to accountants or auditors arising from the new Act. I shall not be dealing with legal, registration and notification provisions which have no bearing on the annual accounts, as such, nor with the special provisions affecting banking, discount, insurance and shipping companies.

Historical

4. When the Companies Act 1967 received Royal Assent on July 27th last it was twenty years since there had been any significant development of company law and there had been none whatever in Statute Law, the 1948 Act being merely a consolidation of the 1929 and 1947 Acts. Five years had elapsed since the Jenkins Report was published so that the enthusiasm for reliable, consistent and informative corporate reporting which had been engendered before, during and after Jenkins had largely faded away.

5. I have to confess that until I came to prepare this paper I had been under the impression that the new Act contained little of the technical reform and tidying up which had been our aim five years previously and this led me to refer back to my records of the protracted Institute deliberations at the time. I had, with other people, noted a number of omissions from the 1967 Act, such as the absence of any lead on the question of pre-acquisition profits or shares of no par value, and had bridled at the demand for certain figures and particulars which seem to have little or no value to shareholders, nor indeed to interfirm researchers, owing to lack of definition. I was obliged to recognize, however, that there are a number of subjects, where there existed a fair measure of unanimity between the Institute, the Jenkins Committee Report, and the Stock Exchange, which were taken up, modified and sometimes even mutilated, and put into the new Act. These include such matters as the simplification of the auditors' report, the quoting of turnover, the disclosure of directors' interests, and many minor matters; nevertheless, much of the thought and precision put into our submissions has got lost in the drafting, which has left us with many ambiguities and difficulties. Our attempts, in conjunction with the other accountancy bodies, to deal with these while the Bill was in a draft stage were only partially successful and the persisting ambiguities form a large part of the subject-matter of this paper.

6. There can be no doubt that the 1967 Act seeks to broaden immensely the base of public information relating to private as well as public companies, not only for the benefit of their shareholders but also for Government, trade unions, economists, statisticians, investment analysts and even prospective take-over bidders. In so far as this profusion of information relating to the private sector may be calculated to facilitate the influence, if not control, of business by Government or public opinion, I believe that the Companies Act 1967 owes much to political purpose.

7. It is not relevant whether we as individuals deny or

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accept that this trend is in the national interest. As professional men, we have to recognize the broader context of corporate reporting and to give full compliance to the new requirements.

8. The parliamentary process was completed with undue haste so that Royal Assent could be accorded before the summer recess of 1967. The House of Lords, for example, had to approve in four hours forty-five new clauses and 351 amendments: in debate in the Commons it was admitted on occasion that there were oversights which there was no time to rectify.

9. The Act at the time it was going through the House was said to be only the first instalment of company legislation and the Government promised further legislation so as to implement more of the recommendations of the Jenkins Committee. Personally, I suspect that the company law purists are going to have to wait yet another generation before the law can be brought up to the standard we seek – or will it ever? I suppose it would be wishful thinking to say that if we as a profession can make best practice work, company law could be relegated to the position of long-stop. The annual report and accounts is after all the most important document issued regularly by a company, not only to its shareholders, but also to the investing public and whether by the force of law or of the general undertaking to the Stock Exchange or otherwise, a company has a clear duty to present an intelligible review of its activities, incorporating 'a true and fair view' of its financial position.

Abolition of exempt private companies

10. The abolition of the exemptions in favour of private companies is the most far-reaching change brought about by the Companies Act 1967 (section 2) for all those who practise outside the big cities. This effectively comes into force when the first annual return made up to a date after January 26th, 1968, comes to be filed. There is thus a measure of retrospection in that, although a balance sheet may be made up to December 31st, 1967, or earlier, and thus be outside the operation of the accounting requirements of the Act, it will nevertheless require to be filed, if it was not submitted to an annual general meeting until after January 12th, 1968. This brings out the technical point (affecting all companies) that by section 127 (2) of the 1948 Act the accounts filed are to conform to the law in force at the date of the audit. The Accountants' Joint Parliamentary Committee has taken up this point with the Board of Trade so that, in practice, where accounts are made up to a date before January 27th, 1968, and accordingly need not comply with the additional disclosure requirements under the new Act, they need not be amended for filing purposes.

11. My experience is that a number of the erstwhile exempt private companies, which were in the nature of family trusts or investment companies which had no possible risk of insolvency, have decided that in due course they will embrace the status of unlimited liability and so retain exemption from registration requirements. In October last the Board of Trade published *Notes for the guidance of registered companies*, which will facilitate this process. This does not, however, reduce the accounting requirements in any way, so that the accounts and directors' report submitted to shareholders must disclose the same information as though the company was limited.

12. Other small private companies where there is some risk, albeit slight, that there trading may some day bring them on bad times, seem so far to be reluctant to surrender the right to limited liability, even though this will entail the surrender of the secrecy hitherto surrounding their private affairs. Whether they will continue to maintain this attitude when they really face up to the need for prompt and full disclosure under the new Act, cannot yet be judged. There is no need for any far-sighted preparation; even though a set of accounts may be ready for presenting at an annual general meeting, a company can embrace unlimited liability within a fairly short space of time and escape the need for filing thenceforth.

13. Apart from the filing of accounts, the principal effects of the withdrawal of exempt status are that loans made to directors will be unlawful (section 190 of the 1948 Act) and that after the expiration of the transitional period, the auditors of such companies must have a recognized qualification as laid down by the Board of Trade and must be independent of the directors (section 161 of 1948 Act). No one will weep, presumably, at the passing of amateur auditors, but there is going to be the need for some considerable change in practice where different partners of one firm have been respectively in the habit of acting in the capacity of director and of auditor of the same company. In my view once we have faced up to the inconveniences that any such change brings in its train, this requirement will be to the good of the profession generally. So far as concerns loans made to directors, I have a lurking suspicion that a loan repayable on demand is in law being continuously renewed or remade but it was stated by the Government spokesman in the Standing Committee E of the House of Commons that this new provision only applies to loans originated or increased since January 27th, 1968. Such sayings do not make law but the reactions of professional colleagues suggest that it is reasonably safe to accept that pre-existing loans escape.

Investments

14. The Companies Act 1967 has two quite distinct series of requirements dealing with investments:

(1) the listing of particulars of investments in subsidiaries under section 3 and of other investments under section 4; and

(2) the treatment of investments in the accounts proper (Second Schedule).

15. The listing requirements in a general way follow Stock Exchange requirements but the lists become part of the accounts under the Act so that the audit report requires to cover them whatever the format; if the lists are shown away from the general body of the accounts, for example, being included on the cover, there needs to be a specific cross-reference. This may take the form of a clear statement in the audit report that the list forms part of the accounts or there may be a central note, to which the audit report should refer, stating precisely which parts of the document constitute the 'accounts'.

16. The need to list applies to investments in subsidiaries and to all investments where the holding represents more than 10 per cent of the equity, and if so, the information to be given is:

(*a*) name of company;

(*b*) country of incorporation if overseas;

(*c*) proportion of each class of shares held.

(There are several refinements of the above applicable in special cases (see part D of Check List).)

It is odd (perhaps an oversight) that there is no need to list investments (other than subsidiaries) held by subsidiary companies when dealing with the parent company's accounts, for example, where the parent holds 9 per cent of the equity and a subsidiary holds 2 per cent. There are reliefs for unimportant particulars of excessive length (but the excluded information must then be given in the annual return) and exemption with the consent of the Board of Trade if disclosure of overseas interests would be harmful.

17. Listing also applies in the case of any investment, even though it is under 10 per cent of the equity capital in the investment, if the book value of the investment exceeds 10 per cent of the book value of the investing company's assets. The actual words used are 'the amount of the assets' – 'as stated or included in the accounts' so that there cannot be any real doubt that it means gross assets at book value, a figure I regard as devoid of relevance. I suppose that difficulties of definition preclude a comparison between the investment and the value of the equity of the investing company, both computed at market values, but that good practice (and probably Stock Exchange requirements – see next paragraph) should call for the listing of any material holding judged on a realistic basis.

18. The Stock Exchange requirements for listing of associated companies apply to group holdings of 25 per cent or more of the equity and constituting more than 5 per cent of the profits or assets of the group. Apart from this higher percentage the Stock Exchange is more exacting as it requires particulars not only of share capital but also of loan capital and reserves attributable to the group. To give information on shares held and ignore loans (or even preference shares all held by other parties) could be most misleading and it is to be observed that quoted companies must comply with both sets of requirements. For all companies it is clear that brevity should be sacrificed where there is any risk that the bare legal requirements could mislead the reader.

19. Turning now to the accounting treatment, which extends to the investments of the group, a basic change is that the description 'trade investments' no longer has any legal significance; the accounts are required to distinguish between quoted investments and unquoted investments, there being no exclusion of investments of 10 per cent or under, as in the case of the listing requirements. The income from investments has also to be split in the same way between quoted and unquoted. The market value must be shown in the aggregate for all quoted investments and the capital gains tax position should also be indicated.

20. I come to the subject of deferred taxation later, but it is relevant at this point to say that in my view paragraph 14 (3A) of the Second Schedule, which calls for particulars of any special circumstances which affect liability in respect of taxation of capital gains for succeeding financial years, makes it almost obligatory to state the amount of the liability to corporation tax on the capital gain which would arise if the quoted investments were sold at their stated market value. In the case of unquoted investments, as in the case of property and other chargeable assets, it may not be practicable to arrive at any reliable estimate of the value of the asset at April 6th, 1965, and it may have to be accepted that it is not practicable to give a figure. Even so it is necessary to indicate the position, as I have said above.

21. For unquoted equity investments there has to be shown either the directors' valuation of the investments or the particulars specified below:

(*a*) the income from investments, i.e. dividends receivable;

(*b*) the share of the underlying profits before tax relating to the 'accounts sent by them during the financial year to the company';

(*c*) the share of the underlying profits after tax for the same period;

(*d*) the undistributed post-acquisition profits or losses presumably ending with the period prescribed in (*b*) but it does not say so;

(*e*) how losses have been dealt with.

If the company has more than one such investment, the figures can be aggregated or some can be valued in aggregate while the others have the particulars given collectively. These requirements apply to both the balance sheet of the company and the consolidated balance sheet so that for groups two sets of figures are required. They also apply (as do the listing requirements) to investments held by a subsidiary in a fellow subsidiary.

22. The complications which can arise from this set of rules are legion and I will only mention some of the more striking.

(i) Investments for this purpose are those consisting of equity share capital; this means that loans and other fixed interest investments will need to be distinguished from equity investments.

(ii) The dividends receivable in the year may not be relevant to profits which have to be stated owing to delays in receiving accounts for differing financial periods.

(iii) If the investment is in the parent company of a group, the profit to be stated appears to be that of the parent rather than the consolidated profits of the group.

(iv) If there are changes in the amount of shares held in the year, the need to deal with the investment at the close of the year may entail complications.

(v) There is no guidance as to the treatment of preference dividends. Presumably these should be deducted gross from the profits after corporation tax; it would then be logical to deduct a 'grossed up' amount from the profits before tax.

(vi) Similarly there is no guidance as to capital profits or losses. Presumably they should be included (and distinguished), if realized, because they would then form part of the undistributed post-acquisition profits but if they merely represented a surplus on revaluation they should be excluded.

(vii) Bonus issues, rights issues or issues of shares to other parties could all affect the share of the undistributed post-acquisition profits attributable to the investment.

(viii) The share of the loss of an investment is to be set against the share of profits of other investments. Such a share of loss might, however, exceed the cost of the investment and, unlike a subsidiary, the owner has no responsibility – moral or otherwise – for this loss, so that it would be incorrect to deduct it; presumably the only solution is to deal separately with such an investment.

23. Above all, orderly accounting really requires that the opening figure of undistributed post-acquisition profits should be reconciled with the closing figure; presumably some phrase complementary to 'consolidation adjustment' will be evolved.

24. Where a company has only a few investments it will undoubtedly be possible not only to comply with the statutory requirements but also to produce some meaningful figures, perhaps at the expense of a long note, especially if realistic use is made of the principle of materiality. Where, however, there are a considerable number of investments I have to admit that it would appear a forbidding task even to avoid giving misleading figures; presumably a voluminous note is inevitable.

25. There is the alternative that the directors may value their unquoted equity investments but we all know that this is not easy, even for experienced professional advisers. How often does the amount of a take-over bid surprise everyone! The value of an investment can change quite remarkably within a short time arising from many external factors, and it might even be unwise on the part of the directors to publish a valuation which could have quite disconcerting consequences. If they do choose to value their holdings and show a gain, the directors will need also to explain the position as regards capital gains tax, within the context of paragraph 20 above.

26. On top of all the above requirements quoted companies also have to consider whether to follow the Stock Exchange recommendation to distinguish trade investments and investments held as fixed and current assets; they may find it appropriate to use the new class of asset, one that is neither fixed nor current. If, however, an investment is a fixed asset, the old requirement still subsists that one must show in the balance sheet both the cost and amounts written off.

CHECK LIST—COMPANIES ACTS 1948–1967

NOTES

1. A check list of the information to be disclosed in the annual reports and accounts of companies under the above Acts is attached. This is sub-divided under the following headings:

		Paragraphs
Section A	Information to be given as regards the balance sheet ..	1–49
Section B	Information to be given as regards the profit and loss account	50–68
Section C	Group accounts – special situations .. .. .. (Applicable where no group accounts submitted or subsidiaries not consolidated or financial years not co-terminous)	69–71
Section D	Information to be given in accounts or annexed statement	72–78
Section E	Information to be given in the directors' report	79–96
Section F	Check list for common sources of clerical error in accounts	97
Section G	Contents of auditors' report	98
Appendix I	Stock Exchange recommendations	
Appendix II	Examples of special circumstances affecting current or future taxation liability	

2. The list is designed to do no more than indicate in abbreviated form the various heads of disclosure referred to in the Acts. It does not seek to comment on or interpret the Acts to which reference should be made on any point of doubt or difficulty. Mere compliance with the heads of disclosure will not of itself necessarily ensure that the accounts give the 'true and fair view' required by the Acts and the circumstances of each case, including any relevant requirements of a company's memorandum and articles of association, will need to be considered. It should be noted that although the **statutory definitions** of capital and revenue reserves included in the Companies Act 1948 have been removed, the basic requirement that reserves are to be classified under sub-headings appropriate to the company's business remains (para. 7 of check list).
3. The references given are to the 1967 Act except where the 1948 Act is specified.
4. Where the Acts specify that information need not be given if it is not material, the relative paragraph is marked with an asterisk, thus *.
5. Stock Exchange *requirements* for quoted companies, which have signed a general undertaking since September 1st, 1966, are included in italics where they are additional to the requirements of the Companies Acts. Stock Exchange *recommendations* are listed for information in Appendix I.
6. One copy of the check list should be used on each company's annual audit; each item should be ticked off or marked N/A (not applicable), as the case may be, on the left-hand side in the spaces provided.
7. Separate columns are provided for the company's accounts and the consolidated accounts respectively, for use as required. In the case of a holding company producing only a consolidated profit and loss account, the first column of Section B should be deleted.
8. The check list does not deal with any of the exemptions applicable to banking, discount, insurance and shipping companies.

References in heavy type are to sections (or to paragraphs in the second schedule) of the Companies Act 1967 except where the Companies Act 1948 is specified. The columns referred to in Notes 6 and 7 supra are not reproduced.

A. BALANCE SHEET

Share capital and reserves

1. Summary of authorised and issued share capital. **Para. 2.**
2. Redeemable preference shares: **[Para. 2 (a)]**
   (i) earliest and latest dates of redemption;
   (ii) whether at company's option or in any event;
   (iii) premium payable (if any).
3. Number, description and amount of shares of the company beneficially held by subsidiaries. **Para. 15 (3).**

4. Number, description and amount of shares for which options to subscribe granted, stating price to be paid and period of option. **Para. 11 (2).**

5. Arrears of cumulative dividends and period(s) in arrear. **Para. 11 (3).**

6. Share capital on which interest paid out of capital and rate of interest (unless stated in profit and loss account). **Para. 2 (b).**

*7. Aggregate amount of reserves (defined 2 Sch. 27 (1) (b)) under a separate heading, but classified under sub-headings appropriate to company's business. **Paras 6, 4 (1).**

*8. Source of any increase or application of any decrease in reserves under each sub-heading (unless shown in profit and loss account). **Para. 7.**

9. Share premium account. **Para. 2 (c).**

10. Capital Redemption Reserve Fund – s. 58 (1) (d) (1948).

Liabilities and provisions

*11. Summary of liabilities, with such particulars as are necessary to disclose their general nature, classified under headings appropriate to company's business. **Paras. 2, 4 (1).**

12. Particulars of redeemed debentures company has power to reissue. **Para. 2 (d).**

13. State if any liability is secured on assets (not necessarily specifying which assets), otherwise than by operation of law. **Para. 9.**

14. Particulars of any charge on assets to secure liabilities of another person and (where practicable) amount secured. **Para. 11 (4).**

*15. Aggregate amount of provisions (defined 2 Sch. 27 (1) (a)), other than provisions for depreciation, renewals or diminution in value of assets, under a separate heading, but classified under sub-headings appropriate to company's business. **Paras. 6, 4 (1).**

*16. Source of any increase or application of any decrease (other than for purpose for which provision set up) in such provisions under each sub-heading (unless shown in profit and loss account). **Paras. 7, 20.**

17. Excess provisions of all kinds to be treated as reserves. **Para. 27 (2).**

18. Amounts due to subsidiaries, separately from all other liabilities. **Para. 15 (2).**

19. Amounts due to holding and fellow-subsidiary companies, distinguishing debentures. **Para. 16.**

20. Recommended dividends (gross). **Para. 8 (1) (e).**

*21. General nature of contingent liabilities not provided for and (where practicable) aggregate amount. **Para. 11 (5).**

*22. Capital commitments and capital expenditure authorised but not contracted for, where practicable. **Para. 11 (6).**

23. Tax equalisation account and any amount used from it for another purpose during period. **Paras. 7A, 11 (8A).**

24. Bank loans and overdrafts. **Para. 8 (1) (d).**

25. Other loans any part of which has more than five years to run, indicating repayment terms and rate of interest. **Paras 8 (1) (d), 8 (4), 30.**
Stock Exchange require long and medium term borrowings to be divided as far as relevant or practicable and terms to be stated.

26. Basis of computing U.K. corporation tax. **Para. 11 (10).**

Assets

*27. Summary of assets, with such particulars as are necessary to disclose their general nature, classified (if separable) under headings appropriate to company's business. **Paras 2, 4 (1).**

28. Fixed assets, current assets and assets that are neither fixed nor current to be separately identified. **Para. 4 (2).**

29. Methods used to arrive at fixed assets under each heading. State aggregates of cost (or valuation), accumulated depreciation and net book value, except: **[Paras 4 (3), 5 (1), 5 (3)]**
    (i) where figures cannot be obtained without unreasonable expense or delay; **[Para. 5 (2) (a)]**
    (ii) where provision made for renewals or replacements charged direct to revenue (in which case state means of replacement and amount of any outstanding provision); **[Paras 5 (2) (b), 5 (4)]**
    (iii) quoted investments or unquoted investments valued by directors; **[Para. 5 (2) (c)]**
    (iv) goodwill, patents or trade marks. **[Para. 5 (2) (d)]**

30. Year and amount of any valuations and (if made in current period) name or qualification of valuer and bases used. **Para. 11 (6A).**

31. Additions and disposals of fixed assets under each heading. **Para. 11 (6B).**

32. Distinguish freeholds and leaseholds with over, and under, fifty years to run. **Paras 11 (6C), 29.**

33. Aggregate of goodwill, patents and trade marks, if ascertainable and so far as not written-off. **Paras 8 (1) (b), 8 (2).**

34. Shares in subsidiaries. **Para. 15 (2).**

35. Amounts due from subsidiaries. **Para. 15 (2).**

36. Shares in fellow subsidiaries. **Para. 16.**

37. Amounts due from holding and fellow-subsidiary companies, distinguishing debentures. **Para. 16.**

38. Quoted investments, distinguishing those not quoted on a recognised stock exchange (i.e. principal U.K. Stock Exchanges recognized by Board of Trade). **Paras 8 (1) (a), 8 (3), 28.**

39. Market value of quoted investments (and Stock Exchange value, where market value taken to be higher). **Para. 11 (8).**

40. Unquoted investments. **Paras 8 (1) (a), 28.**

†41. In respect of unquoted equity investments not valued by directors, state collectively: **[Para. 5A]**
    (i) aggregate income for period ascribable thereto;
    (ii) share before and after tax of aggregate profits (less losses), based on all accounts sent during period;
    (iii) share of aggregate undistributed profits (less losses) since acquisition;
    (iv) manner in which any losses incurred by companies in which investments held have been dealt with in the company's accounts.

42. Nominal amount and book value of any debentures of company held by nominee or trustee for company. **Para. 10.**

43. Number, description and amount of debentures of company beneficially held by subsidiaries. **Para. 15 (3).**

44. State if any current assets, in opinion of the directors, not realisable at least at balance sheet value. **Para. 11 (7).**

Note:
† Includes unquoted equity investments in fellow subsidiary companies.

*45. Manner of computing stock-in-trade and work in progress. **Para. 11 (8B).**

46. Loans to employees or their trustees to purchase company's or holding company's shares under section 54 (1948). **Para. 8 (1) (c).**

47. Expenditure not written-off in respect of each of: **[Para. 3]:**
  - (i) preliminary expenses;
  - (ii) expenses of issue of shares or debentures;
  - (iii) commission paid on shares or debentures;
  - (iv) discounts allowed on debentures;
  - (v) discounts allowed on shares.

*48. Basis of converting foreign currencies. **Para. 11 (9).**

49. Comparative figures. **Para. 11 (11).**

B. PROFIT AND LOSS ACCOUNT

50. Turnover (unless not more than £50,000 and company not member of a group) and method by which it is arrived at. **Para. 13A.**

51. Rents received (less outgoings), if a substantial part of revenue. **Para. 12 (1) (ga).**

52. Income from quoted investments. **Para. 12 (1) (g).**

53. Income from unquoted investments. **Para. 12 (1) (g).**

54. Auditors' remuneration, including expenses. **Para. 13.**

55. Interest payable on: **[Para. 12 (1) (b)]**
  - (i) loans (if wholly repayable within five years) and all bank loans and overdrafts;
  - (ii) all other loans.

*56. Hire of plant and machinery. **Para. 12 (1) (gb).**

57. (i) Provision made for depreciation, renewals or diminution in value of fixed assets; **[Para. 12 (1) (a)]**
  - (ii) if not determined by reference to balance sheet values, that fact to be stated. **[Para. 12 (4)].**

58. (i) Method of providing for depreciation or replacement of any fixed assets otherwise than by charge under para. 57 (see also para. 29 (ii)); **[Para. 14 (2)].**
  - (ii) fact that depreciation or replacement is not provided for on any fixed assets.

59. Provision for renewal of any assets for which there is also a depreciation charge under para. 57. **Para. 12 (3).**

60. Tax charge, divided between: **[Paras. 12 (1) (c), 14 (3)]**
  - (i) U.K. corporation tax (before and after any DTR) and basis of computation;
  - (ii) U.K. income tax and basis of computation;
  - (iii) overseas tax.

61. Any special circumstances affecting liability to taxation for period or succeeding periods. (For examples see Appendix II.) **Para. 14 (3A).**

62. Amounts provided for redemption of shares and of loans. **Para. 12 (1) (d).**

*63. Transfers to or from reserves. **Para. 12 (1) (e).**

*64. Transfers to provisions (other than provisions for depreciation, etc.) and withdrawals therefrom for another purpose. **Para. 12 (1) (f).**

65. Aggregate dividends paid and proposed (gross). **Para. 12 (1) (h).**

66. Any charge or credit arising in consequence of occurrence of an event in a preceding period, if not included under another heading. **Para. 12A.**

*67. Unusual, exceptional or non-recurrent transactions or change in basis of accounting affecting profit and loss account. **Para. 14 (6).**

68. Comparative figures. **Para. 14 (5).**

C. GROUP ACCOUNTS – SPECIAL SITUATIONS

69. If group accounts are not submitted or a subsidiary is omitted from consolidated accounts, state: **[Para. 15 (4–5)]**
  - (i) directors' reasons therefor;
  - (ii) net aggregate amount attributable to holding company of profits less losses of such subsidiaries (*a*) dealt with and (*b*) not dealt with in its accounts in each case further sub-divided between:
    - (1) financial years of subsidiaries ending with or during its financial year;
    - (2) their previous financial years since acquisition;
  - *(iii) any qualifications in audit reports on accounts of subsidiaries or notes on accounts which, if not made, would have been subject of qualification, so far as not covered by holding company's accounts.

70. In addition, in respect of any subsidiaries omitted from consolidated accounts, the consolidated balance sheet must show: **[Para. 21]**
  - (i) shares in and amounts due from such subsidiaries; **[Para. 15 (2)]:**
  - (ii) number, description and amount of shares or debentures of company beneficially held by subsidiaries. **[Para. 15 (3)].**

71. If financial years of any subsidiaries not co-terminous with that of holding company, state: **[Paras 15 (6), 22]**
  - (i) directors' reasons therefor;
  - (ii) subsidiaries' last accounting dates before that of company (or earliest and latest of those dates).

D. ACCOUNTS OR ANNEXED STATEMENT

72. Particulars of subsidiaries: **[S. 3]**
  - (i) name;
  - (ii) country of incorporation, if other than Great Britain. *Stock Exchange require country of operations*;
  - (iii) country of registration (if incorporated in Great Britain), if different from holding company;
  - (iv) description and proportion of each class of shares held (distinguishing between holdings of parent and other subsidiary companies respectively). *Stock Exchange require per cent of equity capital attributable to the company's interest.*

73. †Particulars of each investment (**of company only**), representing more than 10 per cent of any class of equity capital or constituting more than 10 per cent of book value of the company's assets: **[S. 4]**
  - (i) name;
  - (ii) country of incorporation, if not incorporated in Great Britain;
  - (iii) country of registration if incorporated in Great Britain and different from that of company;
  - (iv) description and proportion of each class of shares held.

Stock Exchange require in respect of each investment representing 25 per cent or more of equity capital held by the company (and *its subsidiaries*):
  - (i) *name;*
  - (ii) *country of operations;*
  - (iii) *particulars of issued share and loan capital and total amount of reserves;*
  - (iv) *percentage of each class of share and loan capital attributable to company's interest.*

74. Ultimate Holding Company: name and country of incorporation. **S. 5.**

75. ‡Loans made to officers of the company during period (whether or not repaid) and amounts outstanding. **S. 197 (1948).**

76. Directors' emoluments (with comparative figures). **S. 196 (1948), S. 11.**
    - ‡(i) Aggregate amount of:
        - (*a*) emoluments,
        - (*b*) pensions,
        - (*c*) compensation for loss of office;
    - ‡§(ii) total of amounts waived by directors and numbers concerned; **[S. 7]**
    - ‡§(iii) numbers whose emoluments (excluding pension contributions) fall within each bracket of £2,500. **[S. 6].**

77. ‡§Chairman's emoluments (excluding pension contributions) and those of highest paid director, if paid more than chairman (with comparative figures). **Ss. 6, 11.**

78. ‡Employees paid over £10,000: numbers whose emoluments (excluding pension contributions) fall within each bracket of £2,500 (with comparative figures). **Ss. 8, 11.**

E. DIRECTORS' REPORT

79. State of company's affairs. **S. 157 (1948).**

80. Proposed dividend. **S. 157 (1948).**

81. Proposed transfers to reserves. **S. 157 (1948).**

82. Names of directors at any time in period. **S. 16 (1).**

83. Principal activities of company (and of its subsidiaries) and any significant changes. **S. 16 (1).**

84. Significant changes in fixed assets, of company (or any of its subsidiaries). **S. 16 (1) (a).**

85. Indication of difference between book and market value of land and buildings of company (or any of its subsidiaries) if significant. **S. 16 (1) (a).**

86. Issue of shares or debentures during period: **[S. 16 (1) (b)].**
    - (i) reasons;
    - (ii) class and amount;
    - (iii) consideration received.

*87. Particulars of any significant contract with company during period, in which director interested. **Ss. 16 (1) (c), 16 (3).**

88. Particulars of arrangements to enable directors to benefit from acquisition of securities. **S. 16 (1) (d).**

89. Directors' interests as recorded in Register in shares or debentures of group companies at: **[S. 16 (1) (e)]**
    - (i) beginning of period (or later date of appointment);
    - (ii) end of period.

    Stock Exchange definition of interest slightly wider: Stock Exchange also require beneficial and other interests at end of period to be distinguished.

90. *Stock Exchange require names and holdings of substantial shareholders.*

91. Analysis of turnover and profit before tax, between differing classes of business (unless turnover not more than £50,000 and company not a member of a group); required only on group basis for a holding company if consolidated accounts prepared. **Does not apply to periods ending before July 27th, 1968. S. 17.**

    Stock Exchange require in figures or percentages:
    - (i) *contributions of widely differing operations of company (or Group) to trading results;*
    - (ii) *geographical analysis of trading operations, if trading overseas.*

92. Value of goods exported or statement that no goods exported (unless turnover not more than £50,000) by company (or if a holding company by the group). **S. 20.**

93. Average number of U.K. employees (if one hundred or more) of the company (or if a holding company of the group) and their aggregate remuneration. Wholly-owned subsidiary of U.K. company exempt. **S. 18.**

94. Totals of U.K. political and charitable contributions respectively of company (or, if any made by subsidiaries, of the group), unless together not more than £50. Amount and name of political party or person paid for each contribution for political purposes over £50. Wholly-owned subsidiary of U.K. company exempt. **S. 19.**

95. Any other matters 'material to appreciation of company's affairs by its members'. **S. 16 (1) (f).**

96. Comparative figures for any information given in Directors' Report instead of accounts under section 163 (1948). **S. 22.**

F. GENERAL MATTERS

97. Check list for common sources of clerical error in accounts:
    - (i) Rounding differences of £1 between, for example:
        - (*a*) retained profit and proposed dividends in balance sheet and the same items in profit and loss account;
        - (*b*) retained profit in previous year's accounts and that brought forward in current year.
    - (ii) Audit report and in particular references to:
        - (*a*) profit/loss;
        - (*b*) year/period;
        - (*c*) position of balance sheet, etc., e.g. 'above', 'annexed', etc.;
        - (*d*) minority interests.
    - (iii) Name of client not spelt out exactly as registered.
    - (iv) Inconsistent description of the same items in balance sheet and consolidated balance sheet.

G. AUDITORS' REPORT

98. Consider finally whether:
    - (i) accounts have been properly prepared in accordance with the provisions of the Companies Acts 1948–67;
    - (ii) accounts give a true and fair view;
    - (iii) proper books of account have been kept;
    - (iv) proper returns adequate for audit have been received from branches not visited (where applicable);
    - (v) accounts are in agreement with the books and returns;
    - (vi) all information and explanations necessary for purposes of audit have been obtained.

(See also paragraphs 75 to 78 and note thereon regarding Auditors' obligations to disclose Officers' Loans and Emoluments in report if not otherwise shown.)

Notes for Paragraphs 73–91

† Although investments of subsidiary companies are not within scope of section 4 CA 1967 it may be deemed appropriate to give corresponding information. Investments of a Company in fellow subsidiary companies are included.

‡ The information is required only in respect of directors, etc., of the **Company** (2 Sch. 19) and is to be given by auditors in their report if not otherwise disclosed; exemption for loans made in the ordinary course of the company's business where this includes the lending of money.

§ Does not apply to a company which is neither a holding company nor a subsidiary and Directors' emoluments not more than £7,500.

APPENDIX I

Stock Exchange recommendations

(see paragraph 5 of Notes on page 181)

In letters dated August 1964 and February 23rd, 1966, to the chairmen of quoted companies, the Stock Exchange recommended the inclusion of certain extra-statutory information in accounts. Recommendations as to items to be disclosed, other than those adopted as requirements in the General Undertaking in force since September 1st, 1966, or by statute in the Companies Act 1967, are listed below:

Written down value of any valuation of fixed assets and date thereof
Rents payable, if material
List of investments held as fixed assets
Names, holdings and aggregate dividends of quoted trade investments
Turnover should exclude sales within group
Turnover should, where appropriate, be divided between products or geographical areas
Note of method used in calculating depreciation
Table of relevant comparative figures for past ten years
List of principal products
Particulars of major currency difficulties or political uncertainties
Whether or not company is close (*NB* compliance with C.A. 1967 under paragraphs 61 and 95 of Check List may require this information).

APPENDIX II

Special circumstances affecting liability to taxation for period or succeeding periods (2 Sch. 14 (3A))

(paragraph 61)

The following are examples of matters which where material might fall within the scope of the above:

1. Whether company is close or not.
2. Whether or not shortfall and surtax clearances have been obtained.
3. Interest paid to participators and excess directors' remuneration in close companies.
4. Loans and payments under restrictive covenants to participators treated as distributions. Income tax recoverable on repayment of such loans.
5. Past shortfall assessments available to frank future distributions.
6. Losses (including losses for capital gains tax), management expenses, capital allowances or franked investment income carried forward.
7. Overspill relief available.
8. Group relief for losses.
9. Liability under section 65, Finance Act 1965 (dividend stripping).
10. Contingent liability to tax on unremitted overseas profits.
11. Three-year surplus position.
12. Whether base cost for capital gains tax (apart from option to substitute market value at April 6th, 1965) differs from cost or valuation (e.g. revaluation, transfer within group, transfer on formation of company, postponed liability on replacement of business assets).
13. Large disallowable items, including depreciation on a revaluation increment not allowed for tax.
14. Any tax equalisation required, but not provided for.
15. Taxed provisions.

(*To be concluded.*)

Taxation Case

A full report of the case summarized in this column will be published, with Notes on the Judgment, in the 'Annotated Tax Cases'

C.I.R. *v.* Horrocks
C.I.R. *v.* Wainwright

In the High Court of Justice (Chancery Division)

July 8th, 1968

(Before Mr Justice PLOWMAN)

Income tax – Transaction in securities – Reduction of company's capital – Restoration of capital – Sums received by shareholders – Whether return of subscriptions on issue of shares – Finance Act 1960, section 28.

The taxpayers were shareholders in a company, which had a capital of £45,000 in shares of £1 each, all of which had been subscribed for in cash. The company was a cotton manufacturer, and in 1959, in consequence of the reorganization of the cotton industry, it had a surplus of cash and investments. The board decided that the appropriate amount of capital necessary for the company was the original amount of £45,000.

In 1960 resolutions were passed (i) reducing the issued capital to £1,125 in 45,000 shares of 6*d* each; (ii) returning 19*s* 6*d* to each shareholder; (iii) increasing the capital to £45,000 in 1,755,000 shares of 6*d* each; (iv) capitalizing £43,875 of accumulated profits and paying a bonus of 19*s* 6*d* per share in the form of 1,755,000 shares fully paid up; (v) consolidating those 6*d* shares into £1 shares. The reduction of capital was confirmed by the Court. Each of the respondent taxpayers received his proportion of the sum referred to at (ii) above.

It was contended for the taxpayers that those sums represented a return of sums paid by them on the issue of their shares, and were received for no other reason; and that it was not one of the main objects of the transaction to enable a tax advantage to be obtained. It was contended for the Revenue that that was one of the main objects; and that the sums in question were received by the taxpayers as a result of the total transaction. The Special Commissioners decided in favour of the taxpayers on their first contention, and against them on the second, so that they succeeded on their case as a whole.

Held: the sums in question were not received by the taxpayers merely as a result of the reduction of capital; and the sums were caught by section 28 of the Finance Act 1960.

Finance and Commerce

What means what

A study of the ten-year financial table included in the reprint of the accounts of Head Wrightson & Co Ltd will show readily enough that the company, to say the very least, has not exactly been having things all its own way. It may be said that the reader of the ten-year table, trying to reconcile the 1968 results for year column with the profit and loss account figures, won't have things all his own way either.

If a company's report is to be read without riddles then there must be consistency in items and figures. The Head Wrightson directors' report opens with the words 'It is with regret that we have to report that during the year under review there was a trading loss of £257,818'. This, as the profit and loss account and notes 2 and 3 show, is the loss after bank interest, depreciation, auditors' remuneration, directors' fees, emoluments and pensions, but including investment income.

If the figure of £257,818 is called anything in the profit and loss account it is called group trading deficit. But in the directors' report it is described as group trading loss. In the ten-year table the trading loss becomes £138,000 before investment income and £79,000 after it. By a juggling process it is possible to reconcile what is called trading loss in the table with the profit and loss account items, but surely an essential in clarity of reporting is to be clear on what means what.

Explanation needed

Trading profit or trading loss, group profit or loss before or after taxation should be immediately traceable through to the ten-year record. The profit and loss account and ten-year record should be reconcilable without a kind of trial by arithmetic. Compilers of company accounts should put themselves in the position of the lay reader who, possibly with oversimplification, expects a trading loss or profit to be the same figure in profit and loss account and financial record and needs an explanation if it is not.

In this particular case the ten-year table figure has clearly taken into account the devaluation adjustment and investment grant and taxation recoverable items shown 'below the line' in the profit and loss account, but shareholders should be told so and not left to work the thing out for themselves.

Having mentioned shareholders, it is interesting to note that, although the company's record over the past ten years is hardly impressive, the number of shareholders has risen from 2,441 to 4,074, a trend which could be taken to suggest that the make-up of the ordinary share register has changed through major holdings by institutions being replaced by smaller, private shareholdings.

Turnover down

Opening his statement to shareholders, Sir John Wrightson recalls that last December he reported an inadequate long-term order book and a deteriorating short-term one. On the year, turnover was some £2·2 million down and the consequent underemployment of facilities led to the trading loss.

Sir John comments that 'there is no obvious and easy way back to satisfactory profits by way of diversification'. The object must be to exploit and improve the group's existing skills and its plant. Contracts won in various parts of the world for steelworks and for nuclear power plant are 'clear evidence of the quality of the work which the company carries out', but the need is to see markets expanding.

The company supplies plant and equipment to a wide range of industry, the main markets being in the steel, mining, chemical and nuclear power spheres. In addition, castings and forgings are supplied to the mechanical engineering industry. But almost everything the company produces depends upon a decision by other people to sanction capital expenditure and almost everything supplied is custom built following the placing of an order and subsequent agreement on detailed design. The company is therefore 'dependent first upon the world cycle of demand

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HEAD WRIGHTSON AND COMPANY LIMITED

and Subsidiary Companies

CONSOLIDATED BALANCE SHEET

at 31st January 1968

	Note	1968 £	*1967* *£*
Capital Employed			
Share Capital	1	3,126,943	*3,126,943*
Reserves	2	4,182,679	*4,457,630*
		7,309,622	*7,584,573*
Amount set aside for Pensions		66,550	*77,340*
Total Capital Employed		£7,376,172	*£7,661,913*
Represented by			
Fixed Assets	3	3,549,615	*3,631,231*
Investments	4	520,296	*467,616*
Current Assets Stocks	5	814,625	*873,147*
Net Work in Progress	5	**1,218,112**	*2,365,614*
Debtors		5,055,618	*4,908,544*
Taxation Recoverable		8,844	—
Cash and bank balances, including £234,377 overseas		244,533	*188,734*
		11,411,643	*12,434,886*
less Current Liabilities			
Bank Overdrafts		495,864	*898,574*
Creditors		3,397,023	*3,632,772*
Taxation		1,810	*74,275*
Provision for Dividends		140,774	*167,352*
		4,035,471	*4,772,973*
		£7,376,172	*£7,661,913*

The relevant notes on page [187] form part of this balance sheet

HEAD WRIGHTSON AND COMPANY and Subsidiary Companies

NOTES ON THE BALANCE SHEETS

1 Share Capital

	Authorised	Issued and Fully Paid
	£	£
6% Cumulative Preference Shares of £1 each	169,130	169,130
4½% Cumulative Preference Shares of £1 each	330,870	300,000
Ordinary Shares of 5/– each	3,000,000	2,657,813
	£3,500,000	£3,126,943

2 Reserves

	Capital	Revenue		
		General	Profit and Loss Account	Total
GROUP	£	£	£	£
Balances at 31st January 1967	333,027	2,997,253	1,127,350	4,457,630
Devaluation adjustments	21,027	32,185	29,614	82,826
(Loss) less previous years credits			(134,793)	(134,793)
Dividends paid and recommended			(222,984)	(222,984)
Balances at 31st January 1968	£354,054	£3,029,438	£799,187	£4,182,679
COMPANY				
Balances at 31st January 1967	204,232	1,850,000	41,358	2,095,590
Per profit and loss account			294,585	294,585
Dividends paid and recommended			(222,984)	(222,984)
Balances at 31st January 1968	£204,232	£1,850,000	£112,959	£2,167,191

Foreign currencies have been converted into sterling at the rates ruling on 31st January, 1968. The surpluses arising from the devaluation of sterling on 18th November 1967 are shown above.

3 Fixed Assets

	Group			Company		
	Cost	Depn	Net	Cost	Depn	Net
	£000	£000	£000	£000	£000	£000
Freehold Land and Buildings						
At 31st January 1967	2,089	(698)	1,391	2,061	(698)	1,363
Additions	39	—	39	33	—	33
Disposals	(11)	2	(9)	(11)	2	(9)
Depreciation for year	—	(38)	(38)	—	(38)	(38)
At 31st January 1968	2,117	(734)	1,383	2,083	(734)	1,349
Plant and Machinery						
At 31st January 1967	3,956	(2,076)	1,880	100	(60)	40
Additions	293	—	293	11	—	11
Investment Grants	(121)	—	(121)	(3)	—	(3)
Disposals	(9)	—	(9)	—	—	—
Depreciation for year	—	(215)	(215)	—	(4)	(4)
At 31st January 1968	4,119	(2,291)	1,828	108	(64)	44
Loose Plant and Tools			339			52
Total			£3,550			£1,445

No depreciation is written off Land. Loose Plant and Tools are valued by the various companies' officials each year. In all other cases, depreciation is provided by equal annual instalments calculated to write off the cost (less Investment Grants) of individual fixed assets over their estimated useful lives.

4 Investments

	1968	*1967*
	£	£
Quoted trade investment (at cost, less provision £24,000)	36,000	*36,000*
Unquoted associated companies (at cost) (Details are shown on page 16[1])	484,296	*431,616*
	£520,296	*£467,616*

The Market Value of the quoted investment at 31st January 1968 was £37,000 and in the opinion of the Directors, the value of the unquoted investments is £1,500,000.

5 Stocks and Work in Progress

	Group	
	1968	*1967*
	£	£
Work in Progress	16,712,554	*14,281,421*
less amounts invoiced	15,494,442	*11,915,807*
	£1,218,112	*£2,365,614*

Stocks and work in progress have been valued at the lower of cost, including appropriate overheads and net realisable value.

6 Interest in Subsidiary Companies

	1968	*1967*
	£	£
Shares at cost	1,176,243	*1,176,243*
Amounts owing by subsidiaries	4,782,926	*4,121,890*
	5,959,169	*5,298,133*
Amounts owing to subsidiaries	191,301	*232,278*
	£5,767,868	*£5,065,855*

Details of shareholdings are shown on page 16[1]

7 Creditors

The balance due to creditors has increased as arrangements are in the course of being made for suppliers to all U.K. companies in the group to be paid by the parent company.

8 Capital Expenditure

	1968	*1967*
Contracts for capital expenditure, not provided for in these accounts, are estimated at	£	£
Group	£267,000	*£210,000*
Company	£12,000	*£16,000*

In addition the directors have authorised capital expenditure of £67,000 (*£6,000*) for the Group and £5,000 (*Nil*) for the Company for which contracts have not yet been placed.

9 Contingent Liabilities

The Company has contingent liabilities under guarantees for the performance of contracts by an associated company, and for its bank overdraft up to a maximum of £315,000. It also has a liability to subscribe for up to £850,000 loan stock.

The contingent liability of £22,000 Income Tax referred to in note 5 to last year's accounts no longer exists as the appeal by the company was successful.

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[1] *Not reproduced.*

HEAD WRIGHTSON AND COMPANY LIMITED and Subsidiary Companies

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for year ended 31st January 1968

	Note	1967–68 £	£	1966–67 £	£
Group Turnover	1		£17,227,209		£19,428,880
Group Trading Surplus (Deficit)	2		(236,620)		451,534
Bank interest			(80,283)		(133,112)
			(316,903)		318,422
Income from investments	3		59,085		54,879
			(257,818)		373,301
Profit on sale of investments		71,599		—	
Profit on sale of land		22,907		44,022	
			94,506		44,022
Group Profit (Loss) before taxation			(163,312)		417,323
Taxation	4		(33,559)		(265,227)
Group Profit (Loss) after taxation			(196,871)		152,096
The amount dealt with in the accounts of the parent company is a profit of £294,585 (1967—£110,489)					
Unappropriated Profit from Previous Year		1,127,350		1,210,057	
Devaluation adjustments		29,614		—	
		1,156,964		1,210,057	
Previous years taxation recoverable		7,232		53,000	
Investment grants in respect of previous year		54,846		—	
			1,219,042		1,263,057
			1,022,171		1,415,153
Dividends	5		222,984		287,803
Balance of Profits carried forward					
Parent company £112,959 (1967—£41,358)			£799,187		£1,127,350

The notes on page [adjoining] form part of this profit and loss account.

NOTES ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1967–68 £	1966–67 £
1 Group Turnover		
Group turnover (excluding inter-company transactions) represents the sales value of completed sales plus the cost of uncompleted work	£17,227,209	£19,428,880
2 Group Trading Surplus (Deficit)		
Arrived at after charging		
Depreciation	£354,416	£355,505
Auditors' remuneration	£7,258	£6,705
Directors' remuneration		
Fees	1,200	1,774
Other emoluments	63,155	62,955
	£64,355	£64,729
Pensions to past executive directors	£4,495	£2,847
3 Income from Investments		
Quoted trade investments	5,842	2,997
Unquoted associated companies	53,243	51,882
	£59,085	£54,879
4 Taxation (*see also note 9 to Balance Sheet on page [197]*)		
Based on profit of the year		
Corporation tax	7,600	62,773
Income tax	—	2,717
	7,600	65,490
Less double taxation relief	5,810	70,458
	1,790	(4,968)
Overseas tax	31,769	270,195
	£33,559	£265,227
Subject to agreement with the Inland Revenue, losses carried forward for future tax relief amount to approximately £374,000 (Parent company—Nil)		
5 Dividends		
6% Cumulative Preference Shares	10,148	9,450
4½% Cumulative Preference Shares	13,500	12,572
Ordinary Shares		
Interim 2½% (4%)	66,445	106,312
Recommended Final 5% (6%)	132,891	159,469
	£222,984	£287,803

Shield Factors

explode a few fallacies about credit factoring

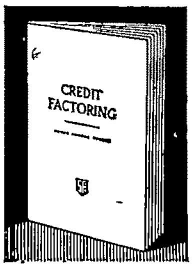
(and blow them sky high!)

1

Customers' goodwill is lost?

Quite untrue.

Become a Shield client and right away we are as interested in your growth as you are. Otherwise our own progress is retarded. Anything bad for you—such as a loss of customers' goodwill—hurts us too. So out of sheer self-interest we do all we can to promote the happiest relationship between you and your customers.



Are we likely to be successful? The fine company names which have been on our books for many years are the answer, and we encourage our prospective clients to get an impartial view on this aspect direct from those whom we already serve. So why not indulge in a little self-interest yourself and get all the facts about Shield?

How credit factoring operates—and its cost

We of Shield, as credit factors, buy all your company's trade debts as they arise and take all the credit risk. You have an assured cash inflow each month—its size depending only on your sales. You may also have pre-payments if required and you enjoy full protection against bad debt losses.

This modern financial technique of factoring saves you the worry and expense of account collection, and eliminates much book-keeping. With Shield, you have only one debtor. Shield also enable you to meet suppliers' credit terms and to take advantage of cash discounts. In short, your only responsibility is the quality and delivery of your goods.

Shield's charge for this service? Normally a commission from ¾% to 2% of the invoices purchased. This is more than offset by the risks it removes, the trouble and money it saves.

Full particulars of Shield service are given in the booklet "Credit Factoring", a copy of which is waiting for you. Please write or 'phone (asking for Mr. F. R. Salinger or Mr. E. S. Davis) and this detailed booklet will be sent to you by return.

Shield Factors Limited,
Plantation House
Mincing Lane, London, EC3
Telephone: 01-623 9236

Owned by N. M. Rothschild & Sons, Anglo-African Shipping Co. (S.A.) Ltd., C. T. Bowring & Co. Ltd., Eagle Star Insurance Co. Ltd., Industrial & Commercial Finance Corporation Ltd., Kleinwort Benson Ltd.

A Deed of Gratitude

A legacy for the Methodist Homes for the Aged is a means many generous people adopt in expressing gratitude for their own home and for serenity and peace-of-mind in their old age.

There are so many who are less fortunate and for lonely and anxious old people the Methodist Homes for the Aged are a haven and a home. Our constantly growing income from legacies, more than any other factor, has enabled us to embark on the capital expenditure for twenty-eight Homes. Unfortunately even these will accommodate only a few of the hundreds of deserving people on the tragically long waiting list.

We thankfully acknowledge this valuable assistance and ask you please to remember the Methodist Homes for the Aged when advising your clients.

Methodist Homes for the Aged

General Secretary: Rev. R. J. Connell, B.A., B.D.
1 Central Buildings, Westminster, London SW1

RETAILING COMPANIES

MERCHANT BANK WOULD LIKE TO HEAR FROM COMPANIES RETAILING CONSUMER PRODUCTS WHO WISH TO JOIN A GROUP OF SIMILAR, BUT NON-COMPETING FIRMS. ADVANTAGES INCLUDE MORE READY ACCESS TO FINANCE FOR EXPANSION, ASSISTANCE WITH PROPERTY, ACCOUNTING, STOCK CONTROL AND OTHER MATTERS, AND AT THE SAME TIME A MARKET IS EFFECTIVELY ACHIEVED FOR PROPRIETOR'S SHARES.

IF YOU HAVE A RECORD OF GROWING PROFITS WHICH CURRENTLY EXCEED £50,000 BEFORE TAX AND ARE INTERESTED, WRITE IN CONFIDENCE TO THE CHAIRMAN, BOX RC 99, *THE ACCOUNTANT.*

for capital goods and next, upon the consequent U.K. cycle of demand for similar goods'.

Long-term prospects

The present level of demand is depressed and accordingly there is relative overcapacity in the supplying industries. The chairman indicates that all the company can do under such circumstances is to look to its efficiency and its skills and wait for the market as a whole to revive.

This is a process hardly conducive to an immediate return to profits and Sir John, in his statement with the accounts, almost pointedly refrains from making any forecast of current year results although he insists that 'long-term prospects are good'.

Shareholders who have stayed with the company may be in for another lean year although an improvement in home demand for capital plant and equipment could be reflected in the company's order position fairly quickly. In this sphere of industry, however, there is a fair time-lag between orders and profits and shareholders will have to look to 1969 rather than 1968 for worth-while improvement in the earnings position

Next year they should be presented with a ten-year record more readily reconcilable with the accounts – that is unless the merger trend so strongly prevalent in industry has caught up with Head Wrightson. Despite the chairman's emphasis on the efficiency and latent power of the organization and the company's potential in terms of a revival of demand, mergers in the heavy plant industry cannot be ruled out of the reckoning.

CITY NOTES

THIS week the market opened after seven 'down' days and only three 'up' in Index terms over the preceding ten dealing days. And yet during that period economic, currency and industrial earnings news had all been good.

As the fear of another currency debacle receded – and early last month there were plenty of people prepared to put a near date on the next sterling devaluation – the urge to buy equities for capital protection's sake eased.

Holders of equities – outside the short-term gains tax – appreciated that the stock-market had protected their capital far beyond the extent of currency inflation, devaluation and all, and thought marginally in terms of taking profits. A 6 per cent fall in share prices thereupon ensued in the space of little more than a week.

* * * *

ONE minor City mystery recently was that of the City company chairman who was said to be saying something but failed to do so. The word was put around in the morning that 'something very important' was going to be said by the chairman in question at the company's annual meeting. The public relations system was busily working on it. 'No', they had no idea what it was but they had been advised by no less a person than the chairman himself that 'he had something to say'.

Calling on the secretary to read the notice convening the meeting, on the representative of the auditors to read the auditors' report, proposing the re-election of a number of directors and thanking shareholders for attending hardly added up to red hot City news. Whatever it was the chairman had to say remained unsaid. The mystery remains but the company's annual meeting attracted its best turnout of City reporters for years. Had the date been April the First it would all have been understandable.

* * * *

LAST week's comment in this column on 'non-disclosure' by the banks coincided with the biggest monthly exercise in non-disclosure, the announcement of the sterling area gold and currency reserves – in brief 'the gold figures'. A rise of £21 million, after accounting for a similar figure for debt service payments, lead to the inevitable monthly guesswork as to the underlying minus or plus – presumably plus – in the Central Bank credit position. There is a strong case to be made for quarterly instead of monthly gold figures. At least it would reduce the guesswork exercise to four times a year instead of twelve.

RATES AND PRICES

Closing prices, Tuesday, August 6th, 1968

Tax Reserve Certificates: (29.11.67) Companies 4⅜%; 3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966 ..	.. 7%	Oct. 19, 1967 ..	.. 6%
Jan. 26, 1967 ..	.. 6½%	Nov. 9, 1967 ..	.. 6½%
Mar. 16, 1967 ..	.. 6%	Nov. 18, 1967 ..	.. 8%
May 4, 1967 ..	.. 5½%	Mar. 21, 1968 ..	.. 7½%

Treasury Bills

May 31 ..	£7	4s	9·88*d*%	July 5 ..	£7	4s	9·73*d*%
June 7 ..	£7	4s	3·30*d*%	July 12 ..	£7	3s	5·60*d*%
June 14 ..	£7	3s	9·58*d*%	July 19 ..	£7	2s	5·25*d*%
June 21 ..	£7	3s	8·57*d*%	July 26 ..	£7	1s	2·22*d*%
June 28 ..	£7	4s	10·04*d*%	Aug. 2 ..	£7	0s	4·48*d*%

Money Rates

Day to day	.. 5⅞–7 1/16%	*Bank Bills*	
7 days ..	.. 5¾–7⅛%	2 months ..	7½–7 9/16%
Fine Trade Bills		3 months ..	7½–7 9/16%
3 months	.. 8½–9%	4 months ..	7½–7 9/16%
4 months	.. 8½–9¼%	6 months ..	7½–7 9/16%
6 months	.. 8¾–9½%		

Foreign Exchanges

New York	2·39 7/16	Frankfurt ..	9·62 3/16
Montreal	2·56 27/32	Milan	1488
Amsterdam ..	8·68 5/32	Oslo	17·10⅜
Brussels	119·65½	Paris	11·90¾
Copenhagen ..	18·00⅝	Zürich	10·31 3/16

Gilt-edged

Consols 4% ..	53 1/16	Funding 6% 1993	83 15/16
Consols 2½% ..	33⅞	Savings 3% 60–70 ..	91 3/32
Conversion 3½% ..	47 15/16	Savings 3% 65–75 ..	74⅝
Conversion 5% 1971	93	Treasury 6½% 1976	94½
Conversion 5¼% 1974	90	Treasury 3½% 77–80	73⅜
Conversion 6% 1972	94 13/16	Treasury 3½% 79–81	68 11/16
Funding 3½% 99–04	52⅜	Treasury 5% 86–89	74 9/16
Funding 4% 60–90	95⅝	Treasury 5½% 08–12	73 11/16xd
Funding 5¼% 78–80	82 3/16	Treasury 2½% ..	34¼
Funding 5½% 82–84	81⅛	Victory 4%	95½
Funding 5¾% 87–91	81⅝	War Loan 3½% ..	47¼

FOR THE SMALL PRACTITIONER

Data Processing Services for Incomplete Records

A NUMBER of data processing centres have recently been established in various parts of the country, and practitioners have been quick to recognize the advantages of those offering packaged programs.

Centres for the processing of business information in London, Birmingham and Dundee are currently being operated by the National Cash Register Co Ltd, who are developing a service to assist public accountants in the computation and analysis of clients' incomplete records.

The service is designed to ease the task of practitioners in the preparation of clients' accounts. The system being devised offers the following advantages:

(*a*) relieves the ever-present problem of staff shortages;
(*b*) enables existing personnel to be directed to other more specialized duties;
(*c*) increases the potential for accepting additional clients' business;
(*d*) produces (i) detailed listings of all input data for ease of reconciliation, and (ii) summary tabulations;
(*e*) accelerates the turn-round of clients' accounts;
(*f*) reduces to a minimum the high development costs normally associated with data processing as the system being devised will cater for a wide range of analysis heads to cover all types of business;
(*g*) as the centres have a number of compatible NCR 315 systems, an adequate service is assured.

The new service enables practitioners to have their incomplete records listed and analysed by entering them on an O.C.R. add/listing machine against code numbers allocated for each account heading. These accounts are listed in batches under the control of a batch heading indicating the practitioner, client and source of the information (whether bank pass book, cash book, etc., this source is known as 'data type').

O.C.R. (optical character recognition) is a system which enables audit rolls to be printed in stylized characters that can be read electronically as well as by the human eye – as, for instance, is now used for the serial number on most cheques. The O.C.R. rolls thus prepared are sent to the data processing centre where they are read into the computer and two reports are produced. In the first report (*illustrated below*) every item is entered, sorted and listed under its account heading within its data type. A batch reference number is also shown enabling the original entry to be traced back should further checking be required.

Totals for each account heading are shown and carried forward to the second report (*opposite*) which is a summary showing the totals by data type for each account heading. The new total is then calculated for each account heading over all data types.

It is from these resultant net totals that the practitioner can prepare a trial balance and the subsequent profit and loss account and balance sheet. It will thus be recognized by the accountant as a chore of much time-consuming and error-prone manual analysis.

On joining the service, the public accountant is allocated an 'accountant number' within the range 0001–9999, together with a check digit. He, in turn, will allocate a number within the range 001–999 to each client whose data is sent in for processing. This number is entirely under the control of the individual practitioner; the centre

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DATE XX/XX/XX                      ACCOUNTANT 12345 SMITH JONES & CO                                     PAGE XX

                              INCOMPLETE RECORD ANALYSIS FOR CLIENT 567 WHITES SWEET SHOP

DATA LISTING

DATA TYPE 2       CODE 121       PURCHASES 1
BATCH 35           97  0  0+     103  0  0+      25  0  0+      256  0  0+      91  0  0+      42  0  0—
                  235  0  0+      69  0  0+      13  0  0—       29  0  0+
BATCH 61           26  0  0+     345  0  0+      88  0  0+      154  0  0+     145  0  0+
                                                                                    TOTAL          2/121      1608  0  0+
DATA TYPE 2       CODE 122       PURCHASES 2
BATCH 35           48  0  0+     126  0  0+      79  0  0+
BATCH 52          176  0  0+      98  0  0+     131  0  0+      216  0  0+     157  0  0+      29  0  0+
                   25  0  0+
BATCH 61           19  0  0+       6  0  0—     232  0  0+      122  0  0+      59  0  0+     202  0  0+
                                                                                    TOTAL          2/122      1713  0  0+
ETC. FOR EACH CODE NUMBER WITHIN EACH DATA TYPE
                        THIS SPECIMEN SHOWS LISTING OF INPUT ITEMS FOR CODES 121 & 122 WITHIN DATA TYPE 2
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DATE XX/XX/XX                 ACCOUNTANT 12345 SMITH JONES & CO                                      PAGE XX

                        INCOMPLETE RECORD ANALYSIS FOR CLIENT 567 WHITES SWEET SHOP

SUMMARY REPORT
                      DATA TYPE 1     DATA TYPE 2     DATA TYPE 3     DATA TYPE 4     DATA TYPE 5
                      OPENING BAL        BANK            CASH         CLOSING BAL     ADJUSTMENTS     NET BALANCE

101 CASH AT BANK        300  0  0+      172  0  0+                      472  0  0—                        0  0  0+
109 CASH IN HAND         15  0  0+                       10  0  0+       25  0  0—                        0  0  0+
121 PURCHASES 1         125  0  0—     1608  0  0+                      129  0  0+                     1612  0  0+
122 PURCHASES 2         117  0  0—     1713  0  0+                      112  0  0+                     1708  0  0+
123 PURCHASES 3         108  0  0—     1575  0  0+                      115  0  0+                     1582  0  0+
124 PURCHASES 4         123  0  0—     2306  0  0+                      130  0  0+                     2313  0  0+
131 WAGES                              1008  0  0+      240  0  0+                                     1248  0  0+
135 N.H.I.                                               54  0  0+                                       54  0  0+
139 P.A.Y.E.             10  0  0—                       62  0  0+       10  0  0+                       62  0  0+
140 DRAWINGS                                            985  0  0+                                      985  0  0+
160 CARRIAGE              9  0  0—       75  0  0+       31  0  0+       16  0  0+       18  0  0—       95  0  0+
170 PACKING              12  0  0—      150  0  0+       26  0  0+        7  0  0+        4  0  0+      175  0  0+
180 VEHICLE EXPS         17  0  0—      256  0  0+      101  0  0+        6  0  0+       14  0  0+      360  0  0+
200 RENT                 25  0  0—      200  0  0+                       27  0  0+                      202  0  0+
210 RATES                25  0  0—       50  0  0+                       27  0  0+                       52  0  0+
230 INSURANCE            31  0  0—       31  0  0+                       33  0  0+                       33  0  0+
240 ADVERTISING                         103  0  0+                                       11  0  0—       92  0  0+
250 POST & TEL           10  0  0—       88  0  0+       51  0  0+       12  0  0+                      141  0  0+
300 PROF. FEES           26  0  0—       26  0  0+                       26  0  0+                       26  0  0+
310 STATIONERY                                          115  0  0+                       26  0  0+      141  0  0+
350 SUNDRIES                                             87  0  0+                       15  0  0—       72  0  0+
701 SALES 1              75  0  0+     2018  0  0—      397  0  0—       81  0  0—                     2421  0  0—
702 SALES 2              96  0  0+     2091  0  0—      416  0  0—      105  0  0—                     2516  0  0—
703 SALES 3              69  0  0+     1962  0  0—      412  0  0—       75  0  0—                     2380  0  0—
704 SALES 4              60  0  0+     3290  0  0—      537  0  0—       64  0  0—                     3831  0  0—
901 STOCK 1             110  0  0+                                      118  0  0—                        8  0  0—
902 STOCK 2             115  0  0+                                      127  0  0—                       12  0  0—
903 STOCK 3             103  0  0+                                      109  0  0—                        6  0  0—
904 STOCK 4             172  0  0+                                      186  0  0—                       14  0  0—
910 MOTOR VEHICLE       150  0  0+                                       90  0  0—                       60  0  0+
920 EQUIPMENT           400  0  0+                                      350  0  0—                       50  0  0+
990 CAPITAL A/C        1027  0  0—                                     1027  0  0+                        0  0  0+

               TOTALS     0  0  0+        0  0  0+        0  0  0+      125  0  0—        0  0  0+      125  0  0—
              +TOTALS  1665  0  0+     9361  0  0+     1762  0  0+     1677  0  0+       44  0  0+    11063  0  0+
              —TOTALS  1665  0  0—     9361  0  0—     1762  0  0—     1802  0  0—       44  0  0—    11188  0  0—

NOTE

THIS EXAMPLE SHOWS ONLY THE MECHANICS OF THE COMPUTER PROGRAM AND IS NOT INTENDED TO LAY DOWN OR IMPLY ANY ACCOUNTANCY
TECHNIQUES. THIS IS ENTIRELY WITHIN THE CONTROL OF THE INDIVIDUAL ACCOUNTANT USING THE SERVICE.
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identifies the data by an eight-digit combination of accountant/client numbers.

Data sources are identified by data type numbers which are allocated in blocks of five. These become the headings for the first five columns of the summary report. The figures listed in these five columns are cross added to calculate the net balance recorded in column six. A standard range of data type headings might be as follows:

(1) Opening balances.
(2) Bank transactions.
(3) Cash transactions.
(4) Closing balances.
(5) Adjustments.

All data entered on the O.C.R. rolls must be preceded by a batch heading and followed by a batch total. For ease of batch reconciliation it is helpful if sub-totals are taken at intervals of between twenty-five and fifty item lines, and in any event never more than one hundred item lines should occur between sub-totals.

Data will be input to the system under the control of an input scrutiny program which reports each time a sub-total or batch total is read, and checks this against the computer-calculated total of item lines. In the event of disagreement, a complete print-out of the lines accepted in that portion of the batch in which the difference has occurred is shown, and processing continues.

When all the data has been input to the system it is sorted by account head within data type within client number. All entries for the first client are then listed under their account heads within each data type and the totals carried forward on to the summary report. Here they are shown against their account head in column form for each of the five data types and the net balance is calculated and shown in column six.

Each column on the summary report is totalled and sub-totals may be shown within the body of the summary report at predetermined points.

Although cumulative information is not retained at the centre, the alphabetic descriptions specified by the practitioner when joining the service are set up by N.C.R. as a basic reference file which is used on each processing run.

These descriptions, which may be of up to eighteen characters, may be printed for each of the following:

Accountant number.

Client numbers (if required, description may be left blank).

Data types.

Account heading codes.

The file may be amended at any time through the provision of appropriate pro formae by the practitioner.

By allocating the account heading code numbers the accountant is able to define the particular groupings and order in which he requires results to appear in the summary report. He also may specify where he wishes sub-totals to be printed. All descriptions for data types and account heading codes are applied to the processing carried out for the particular accountant.

The data processing centres allocate computer time for incomplete records on set days each week. When a practitioner joins the service, his original pro formae setting up the basic description files are required for input data preparation only one week prior to the first processing run.

In terms of costs alone, quite apart from the economies arising from time saved in manual analysis and consequent increase in capacity to handle more clients, the NCR Incomplete Records Service shows substantial advantages. The joining fee, inclusive of the establishment of the alphabetical reference files, is £35. Thereafter, a charge is made per accountant of £3 15*s* per 1,000 input lines, irrespective of clients, subject to a minimum charge per processing run of £5.

Another data processing service for incomplete records

Another system aimed at reducing the more laborious work of the accountant, so that his skill is only required at the vouching stage and at the final stage of ensuring that the profit and loss account and balance sheet reflect accurately the state of affairs of his client, is provided by Computer Services Centre (London) Ltd. This method also claims to have an input validation listing to ensure that the computer is accepting data correctly. As it stands, it is said to depend on a three-digit code and standard codes have been developed for general businesses and for farm accounts. The accountant is also free to use his own code but it then becomes impossible to provide account descriptions.

The computer service advises customers that if it has to deal with less than one hundred incomplete record items per annum it is unlikely to prove an economical proposition. This arises from the need to justify both job specialization within the accountant's office and the base charge incurred each time work is submitted.

After the initial joining fee of £50, there is a monthly subscription of £5. Then, each time work is submitted, there is a run charge of £2 10*s* plus £1 per client and £3 per 1,000 transactions including the cost of preparation.

Working papers are prepared which are legible, in sequence, have descriptions, are totalled and also bring to light discrepancies. Data can be dealt with in random order and the work of several clients can be mixed on the same input tape. The final accounts are provided in printed form, thereby reducing the typing problems in the accountant's office. Finally, this centre offers the advantage of a speedy service, the work being processed over the course of a week-end.

LETTERS TO THE EDITOR

Integration of the Profession

SIR, – There is an idea abroad that the importance of an organization is somehow related to its size; that the broader the front that can be presented to the public then the greater the chance of success in the particular venture. This opinion may owe its origin to the contemporary rush to amalgamate, noticeable in industry – a movement more often motivated by prestige or panic than consideration for the public good. It is somewhat doubtful, to say the least, whether size is ever a valuable indication of prosperity or power, not to mention social relevance (it did little for the survival either of the dinosaur or of the South Sea Company) and whilst it may, in limited circumstances, be a source of strength to economic and political units, it is less frequently to the increased efficiency of organizations formed for purposes of responsibly promoting the interests of members. This will be particularly so where those interests are not uniform but vary widely according to the responsibilities of the member or the nature of his particular task.

It is in the light of these observations that one must peruse the proposals put forward in the Institute's Scheme for the Development of the Accountancy Profession. It is proposed basically to integrate each of the three Institutes of Chartered Accountants with The Association of Certified and Corporate Accountants, The Institute of Cost and Works Accountants and The Institute of Municipal Treasurers and Accountants. Other organizations may be brought in later, presumably having been found compatible. From the resultant Scotch broth, Irish stew, or English and Welsh ragout, there will be extracted something that shall be uniformly referred to as a 'chartered accountant' on the one hand and something less imposing referred to as a 'licentiate accountant' on the other. The three Institutes will be 'associated with one another through joint committees'. There will be streaming for the chartered accountant in the latter part of the examination programme. He will specialize in a manner which has not yet been definitely agreed but appears to be rather limited – according to whether his goal is industry, the public service, or what is still euphemistically referred to as the profession. Thus the Institute goes comprehensive.

There has already been, and will be, opposition to the pith of these proposals, based partly on prejudice and partly on argument. Any project that has as its aim an amalgamation of these various organizations with the principal object of bringing about a unified profession with a single appellation afforded to each member (in this case 'chartered accountant') seems pointless. The basic problem is not that there are various institutes and associations but that there are various types of accountant. To attempt to shelter a financial controller, a management consultant, an auditor and a tax specialist under the same umbrella may be rather jolly but it is not very practical. If we are to take the members of the various organizations, fiddle around with examination syllabuses and call them all 'chartered accountants', the term will have about as much meaning as the term 'engineer'.

Some form of reorganization has been made necessary by the fact that cobblers have ceased to stick to their lasts or even, in some instances, to find them; and that whereas the chartered accountant was the financial equivalent of the family doctor and the cost and works accountant was a sort of direct aid to industry, both Institutes, not to mention the Association, have now shown the wish to be all things to all men. This has led both to the confusion of the public and a certain discord between the members themselves.

The sensible approach would seem to lie in the direction of dividing the field into various carefully defined camps. The modern tendency towards specialization made necessary by both the diversification of accounting skills and the constantly accumulating corpus of knowledge, has made it virtually impossible for one man to be a Jack-of-all-trades and traditions. It may be possible for a student to learn, parrot fashion, the contents of the relevant statutes, most of them becoming systematically obsolete, and the contents of the many textbooks that are likely to suffer the same fate, but there is no point, as John Henry Newman said in *The Idea of a University*, in 'enlarging the memory at the expense of faculties which are indisputably higher', and such a student will find it necessary to adopt a pattern of life that will make him no more than one of

> '. . . those earnest but ill-used persons who are forced to load their minds with a score of subjects against an examination, who have too much on their hands to indulge themselves in thinking or investigation, who devour premiss and conclusion together with indiscriminate greediness, who hold sciences on faith and commit demonstrations to memory, and who too often, when their period of education is passed throw up all they have learned in digust, having gained nothing from their anxious labours except perhaps the habit of application'.

This seems perhaps, in the present context, to be a little severe but the cap must fit since it is so often worn.

The solution that the Institutes of Chartered Accountants seem so loath to accept must surely lie in the creation of specialized qualifications. The issue that must be faced – and faced squarely – is that there is a very great difference between a good auditor and a good financial controller. The Institutes have accepted this in part by (*a*) very limited streaming, and (*b*) making it necessary to hold an unrestricted practising certificate in order to audit the accounts of public companies or to act in the capacity of auditor generally.

This is as far as the Institutes seem prepared to go towards admitting ultimate specialization. All will be chartered accountants from the point of view of the public and it seems from the scheme that a person could move into practice from industry by obtaining thirty months' practical experience irrespective of the examinations he passed. There will be no designatory letters differentiating one type of accountant from another. In the building and construction industry we have the architect, the civil engineer, the chartered surveyor, the quantity surveyor, etc., each with his own institute or association, recognizing that although there is an overlap each does a separately defined job. Similarly in the world of finance – or rather, accounting – we have the management consultant, the accountant in industry, the auditor, or tax specialist, and the cost consultant or accountant, yet all these are to be known by only one name, and the only manner by which the public may find out the nature of a man's abilities or the serivces that he could properly offer will be by guessing according to the nature of his job.

The invention of the status of licentiate accountant for those unable or unwilling to satisfy the educational requirements thought necessary for a chartered accountant, but who are considered fit persons to perform certain parts of an accountant's work, has reference not to the field of work but merely to the person's level of education. (With reference to this matter, it might be interesting to consider the analogy made available by the creation of traffic wardens to relieve the police of more mundane duties).

The answer, then, seems to lie in reorganizing the present accountancy profession strictly on lines dictated by the particular function of the present members. Let a man decide whether he wishes (*a*) to be an auditor and take on the very responsible tasks of auditing the accounts of various companies, made increasingly difficult by recent legislation, both company and fiscal; (*b*) to be an accountant in industry concerned with the allocation of limited financial resources among alternative products and the whole organization of the financial structure of that industry; (*c*) to be an accountant in industry concerned principally with the keeping of records and perhaps the organization of systems of internal control; (*d*) to be something akin to what is now termed a management consultant; (*e*) to go into what is vaguely referred to as the public service, or lastly (*f*) to be a consultant in other sharply defined fields.

Once this decision has been made, a certain course of studies will be followed and certain examinations must be passed, these giving a person a right to certain designatory letters. One man may possess two or more qualifications, but let not each be confused with the other. Let there be a separate 'institute' responsible for supervising and sorting out the affairs of each category. There may be a certain overlap and the subdivisions mentioned are obviously put by way of suggestion only – other classifications may be preferred. The thing that is important, however, is that a man should be qualified for the job he is to do. For this reason it may be necessary to introduce other provisions – such as that a man though qualified as an auditor should not be allowed to recommence to practise if he has left that profession for more than a number of years. This problem, together with others, could possibly be overcome by the issue of an annual certificate as has been suggested in the scheme.

If the accountancy profession were reorganized on these lines there would, of course, be the problem of what to do with present members. This need not be serious provided prejudices are set aside. There are probably very few members of The Institute of Cost and Works Accountants and The Association of Certified and Corporate Accountants who would qualify as 'auditor' supposing that, as has been suggested, the issue of a certificate depended on the number of years in practice either on one's own or in a senior capacity with another firm.

However, it is on this title of 'auditor' that a great deal of controversy seems to centre. There is an opinion often voiced – and needless to say often disputed – that the present chartered accountant, who seems to monopolize the auditing 'trade', enjoys a certain superiority because of the nature of his training – training that has as its object what is so often referred to in a rather nebulous way as the acquisition of professional qualities which apparently may only be acquired under articles. The scheme substitutes the word 'training' for 'articles' but still speaks of 'professional outlook' and there is more than a suspicion that the accountant in practice is still thought of as *primus inter pares* – as being slightly more equal than others, even though those others are to be called by the same name. The whole value of the apprentice-journeyman type training is, to say the least, doubtful at a professional level and the only additional advantage that an articled clerk seems to obtain is an exaggerated sense of his own self-importance.

These professional qualities, whatever they may be, are often acquired to the detriment of a more liberal education. One has the impression that the Institute of Chartered Accountants, seeing itself as a sort of mediaeval guild, feels that its function is so particular that no normal principles of education apply. This may appear a harsh judgement but truth is not the most tactful of teachers.

The scheme lends additional support to this view in so far as on the one hand it discounts accounting and commerce as suitable disciplinary subjects for inclusion in entry requirements, and at the same time tends to encourage the study of these subjects at a university level by giving a person with what may be called an accounting or equivalent degree, considerable advantage over a person with say a First in Modern Languages. This seems to show lack of understanding of the purpose of the university, that being to broaden and discipline the mind rather than to enlarge the memory. There seems no reason why the Institute examinations could not be organized so that the graduate, particularly an Honours graduate, could enter the lists at, say, Stage 3, irrespective of the subjects he has studied.

What is needed if the principles of reorganization suggested here were adopted would be a complete reassessment of the type of education needed in each division, in particular an examination of the precise value of service under articles. If this were shown to be relatively unimportant, many of the present objections to welcoming into the ranks of the privileged those who did not enjoy the system of education would be overcome.

Yours faithfully,

MICHAEL J. GREENER,

Barry, Glam. B.A., F.C.A.

Sir, – I should like to offer my congratulations to the Councils of the participating bodies on most of the results of the work which has gone into the preparation of the integration schemes, but it does seem a great pity that the job could not have been properly completed.

I am referring to the point made in Mr Ross's letter (*The Accountant*, August 3rd), that there is no proposal to integrate the three regional Institutes, and I should like to quote from the foreword to the Scottish scheme as follows:

> 'The three integration schemes – Scottish, English and Irish – while almost identical in principle, differ in some respects, reflecting, as they must, educational, historical and environmental differences affecting the profession in each country. One example is that the Scottish scheme provides for the continuance of the present arrangements for an academic year to be spent at a Scottish university during the second year of apprenticeship, whereas the English scheme provides for a nine-months' course at a college of further education before the student enters a training contract.
>
> 'Under all three schemes chartered accountant members without thirty months' experience in the office of a chartered accountant who himself has unrestricted practice rights will be eligible only for restricted practising certificates. Under the English and Irish schemes these restricted practising certificates will also be available to licentiate accountants with the requisite thirty months' experience of public practice. Under the Scottish scheme, however, licentiate accountants will have no right to engage in public practice.'

When one considers the enormity of some of the proposals which have been agreed by all the bodies concerned, one's reaction to the above quotation is one of stunned disbelief that such comparatively minor differences could not have been ironed out, and I shall be very surprised if this matter is not raised at many of the forthcoming regional meetings.

Finally, may I refer to Mr I. A. Window's letter in the same issue of *The Accountant* regarding the cost of printing booklets explaining the scheme. Whilst I have not see the Cost and Works booklet, I have read that issued by the A.C.C.A., being a member, and it is simply a fifteen-page document giving 'a general summary for the convenience of members'. We are told that 'for complete and detailed information on any point reference must be made to the schemes themselves'.

On such an important subject, it is only right that a member of a body which has not yet ceased to exist should expect to receive some sort of an explanatory statement from his Council, regardless of the cost of producing such a document – after all, this is not going to be an annual event!

Yours faithfully,

COLIN J. TURNOCK,

Liverpool 18. A.A.C.C.A., A.C.B.I.

The Move to Stop *Chartac*

Sir, – As a sole practitioner who joined with Mr Nicholson in requisitioning the special general meeting of the Institute I write in reply to Mr Couldery's letter in your issue of August 3rd.

It is disingenuous, to say the least, to claim that the decision to have an Institute journal was 'taken by 11,805 members on a proxy vote', when 5,717 of those members voted *against* the resolution. Mr Couldery also ignores the fact that those members who actually attended the meeting and heard the full arguments adduced by him in support of his resolution, *rejected* it by 317 votes to 44.

I also attended the annual meeting. I did not speak. Presumably Mr Nicholson felt as I did, that the resolution had so little to commend it that it would be rejected, and that he did not wish to waste the time of the meeting. Any member who has studied Mr Couldery's peculiar style of oratory in the full report of the meeting will appreciate that most of us there wished that he had shown us similar consideration.

Mr Couldery's concern for the finances of the Institute comes oddly from one who, knowing that the proposed increase in subscriptions had probably been defeated on the proxy vote, still persisted in his resolution involving additional expenditure estimated at £40,000 per annum.

May I suggest that if this recurring annual burden can be avoided at a cost of £1,500, the return amply justifies the outlay.

The reference to a 'small minority' who are defying 'the declared wishes of the members' is misleading. What of the 5,717 members who voted against the resolution? The reference to an 'arrogant minority' is interesting. I have before me a document signed by Mr Couldery asking for one hundred members to join him in setting up an organization, of the role of which he says he is not sure, but it may be 'as a pressure group on the Institute'. It goes on to say, envisaging the possibility that he will get more support, 'and think of the effect of even a block vote of 1,000 proxies'. Arrogant minority? It reminds me of something I heard on a Summer Course!

I regret that I am unable to attend the special general meeting. I have given a proxy to Mr Nicholson or failing him Mr M. H. C. Smith or failing him Mr D. G. Richards all of Harmood Banner & Co, 24 Ludgate Hill, London EC4. I hope that *all* members of the Institute who feel as I do will do the same.

My reasons for supporting Mr Nicholson, in addition to those set out in his letter to you last week, are:

(1) There are already available to members the monthly *Accountancy*, which is the property of the Institute, and your weekly, *The Accountant*. The cost of both these papers is small.

(2) The failure to increase subscriptions must curtail important Institute activities. The cost of the proposed journal must still further inhibit activities, which are more important and useful to members.

(3) The resolution at the annual meeting was carried by a minute majority comprising 14 per cent of the members. I cannot believe that a majority of the total membership would in fact be in favour. Mr Nicholson's initiative gives the members another chance to consider this matter and to express a clear view.

Yours faithfully,

Shipston-on-Stour, Warwickshire. B. W. SUTHERLAND, F.C.A.

SIR, – I am greatly disturbed by the action of Mr H. T. Nicholson and his associates in requisitioning a special meeting of the Institute with the intention of birth-strangling *Chartac*. The use of by-law 94 to reopen a matter upon which a poll has already been validly demanded and taken creates a most dangerous precedent for dissident and potentially obstructive minorities in the future.

The pros and cons of the 'magazine motion' were discussed in the letters distributed to members in advance of the annual meeting: on which occasion it was debated with a great deal more heat than light, and should now be left to rest where it has fallen. It is not, after all, the most important matter which members of the Institute have to consider.

Without impugning the sincerity of Mr Nicholson's views, his argument is unfortunately fallacious in two respects:

(1) He is not entitled to assume, for his own purposes, that the voting on the 'magazine' and 'subscription' motions was contradictory. It is at least arguable that some members accepted the view, implicit in paragraph 3 of the former, that economies were possible elsewhere; and this point was covered in the preliminary submissions of both Mr Couldery and the (then) President. Moreover, a proposition which Mr Nicholson himself seconded, to adjourn discussion of the magazine motion until the subscription position had been clarified, was put to the meeting and rejected.

(2) The statement that only 25 per cent of the membership voted on May 22nd, applies with equal force not only to the magazine motion but to other decisions then taken, and which Mr Nicholson appears ready to accept. I hope that I am not alone in disliking this selective indignation.

Mr Nicholson may not have acted undemocratically – although, if his resolution happens to succeed by a smaller majority or on a smaller poll than the original, he will find it difficult to rebut that implication. I greatly fear, however, that he has been betrayed by indignation into unwisdom.

Yours faithfully,

Pinner, Middx. M. BARRADELL, LL.B., F.C.A.

SIR, – I was a little puzzled by the fifth paragraph in Mr Couldery's letter, published in *The Accountant* of August 3rd. The notice convening the special meeting of the Institute explains that if a poll is demanded, proxy cards will be issued with a transcript of the meeting, thus preventing the criticism of the annual meeting that that matter was decided on the votes of members who had not heard the discussion.

Mr Couldery requests that 'home-made' proxy cards should be sent to him, which leads me to think that either he has not read the notice or that he is so unsure of his case that he feels that after reading a transcript of the proceedings members will vote for the motion.

It is also interesting that Mr Couldery begrudges the expenditure of £1,500 in an attempt to save what many members consider to be an unnecessary expenditure of £40,000 a year.

Yours faithfully,

Bath. PETER D. CROOK.

SIR, – Following Frederick Couldery's announcement (at the Institute's annual meeting) that many more motions will stand in his name before long, we now learn that he is setting up an Association of Chartered Accountants in Practice. He states that its role is to be a pressure group on the Institute. Surely what we should be considering is the integration of the profession – not the formation of splinter groups.

The greatest danger to the Institute at the present time is that most members are too busy to devote any time to Institute affairs. The greatest need at this time is for every member to give some thought to Institute affairs *and* to exercise his voting rights.

On the question of issuing a free magazine, when the notice of the 1968 annual general meeting was sent to members, it was accompanied by two letters – one from the President and one from Frederick Couldery – and attached was a proxy form. Members were forced to do one of three things:

(*a*) Ignore the matter (32,637 members);
(*b*) attend the meeting and vote (361 members);
(*c*) send off the proxy form (11,805 members).

Those who sent off the proxy form had to form a judgement on the basis of the two letters which, in my view, did not put the facts and arguments adequately. The full arguments were deployed at the meeting and had these facts and arguments been heard and voted upon by *all* members the result would have been different. Eighty-eight per cent of those present voted against a free magazine. Upon a poll 51·6 per cent voted for a free magazine.

Undoubtedly those who were not present were influenced by the adjacent proposal to increase subscriptions. Perhaps many absent members voted for the free magazine because they thought the higher subscriptions would cover the cost: but the higher subscriptions have not been forthcoming. In any event the resolution to issue a free magazine was carried by only a mere 371 votes out of 11,805 votes cast.

On August 29th a special meeting is being held to reconsider the question. Its purpose is to ensure that the decision fairly reflects the considered views of members. All members whether or not they attend this meeting will receive a transcript of the meeting together with voting forms.

Frederick Couldery has called for proxies before members have heard the arguments. Members will gather from this letter that I oppose a free magazine and if they wish to send a proxy or a letter of support to either Hugh Nicholson or myself, it would be welcome. Better still, they should attend the meeting. If a truly representative number of our 44,542 members vote – at this second time of asking – their verdict must be accepted. In view of Frederick Couldery's intention of forming and using a pressure group, any member who ignores this second chance will run the risk of playing into his hands. All I ask is that every member should consider the pros and cons carefully and then *vote*.

The price of freedom is eternal vigilance.

Yours faithfully,

London EC2. HALMER HUDSON.

Notes and Notices

PROFESSIONAL NOTICES

Messrs Charles Comins & Co, Chartered Accountants, announce that Mr J. H. Girdwood, F.C.A., retired from the partnership on July 31st, 1968, after an association with the firm of forty-two years, but he will continue to act in a consultative capacity to the practice. They also announce that Mr Keith Andrew Wilson, A.C.A., who has been a member of the staff for several years, was admitted into partnership on August 1st, 1968.

Messrs Nyman Libson, Paul & Co, Chartered Accountants, announce that they are now at 25 Gilbert Street, London W1. Telephone 01–499 4922.

Messrs Shelvoke, Pickering, Janney & Co, Chartered Accountants, of Spencer House, Digbeth, Birmingham 5, announce that Mr Clive E. McGee, A.C.A., retired from the Birmingham practice on July 31st, 1968, in order to take up an industrial appointment. The practice will be carried on by the remaining partners.

APPOINTMENTS

Mr A. H. B. Bangham, T.D., F.C.A., has joined the board of The British Wagon Co Ltd.

Mr M. N. Bland, F.C.A., has been appointed a director of Expert Industrial Controls Ltd.

Mr P. E. Cooper, A.C.A., a director of Clive Discount Co Ltd, has been appointed to the board of Long, Till & Colvin Ltd, following its acquisition of the Clive Discount Co.

Mr J. W. Hearnshaw, F.C.A., chairman of Hefo Ltd and deputy chairman of John Folkes Ltd, has been appointed chairman of John Folkes Hefo Ltd.

Mr K. Brookes, F.C.W.A., A.C.I.I., has been appointed director of finance of English Electric Diesels Ltd. He was previously director of finance and administration of English Electric Computers Ltd.

Mr K. Brookes

Mr G. E. Le Fevre

Mr G. E. Le Fevre, F.C.A., has been appointed financial director of the Ruberoid Co Ltd, as from October 1st.

Mr G. Lightowler, F.C.A., secretary of Power Plant Gears Ltd, has been appointed a director of the company.

Mr R. K. Mullett, F.C.A., has been appointed secretary of the U.K. companies of Manders (Holdings) Ltd.

Mr R. Pollard, F.C.A., has been appointed a director of Willows Francis Ltd.

Mr Peter Prior, B.SC.(ECON.), F.C.A., has been appointed chairman of Findlater Mackie Todd & Co Ltd.

Mr A. W. P. Stenham, M.A., A.C.A., has been appointed to the board of Fenchurch Insurance Holdings Ltd.

Mr N. A. Stokes, A.A.C.C.A., formerly manager of the A.E. Group international division, has been appointed financial director and secretary of A.E. Auto Parts Ltd.

Mr Frank H. Taylor, M.P., F.C.A., has been appointed to the board of Allied Investments Ltd.

Mr Richard S. Wainwright, M.A., F.C.A., M.P., has been appointed a deputy chairman of the Wider Share Ownership Council.

Mr E. M. Watson, A.C.A., has been appointed group accountant of Grattan Warehouses Ltd.

Mr William T. Tooth, A.A.C.C.A., has been appointed financial director of Waycom Ltd.

NATIONAL BUS COMPANY

Chartered Accountant appointed Chairman

Mr A. N. Todd, F.C.A., has been appointed by the Minister of Transport as part-time chairman of the new National Bus Company which is to take over the bus-operating and bus-manufacturing interests in England

and Wales of the Transport Holding Co.

At present Mr Todd is a member of the Central Electricity Generating Board responsible for finance and administration. In his new appointment his responsibilities will involve the control of nearly one-third of the buses and coaches in Britain, with assets of more than £100 million.

CHARTERED ACCOUNTANT TO INQUIRE INTO GOVERNMENT ESTABLISHMENTS

Mr John F. Mallabar, F.C.A., chairman of Harland & Wolff Ltd, and senior partner in the firm of J. F. Mallabar & Co, Chartered Accountants, of London, has accepted a Government invitation to inquire into the efficiency of Government industrial establishments such as the Royal Dockyards and ordnance factories.

His terms of reference are: 'To examine whether the existing organization and systems of control and accountability of large scale establishments in the Ministries of Defence and Technology engaged in production offer impediments to the achievement of full efficiency; and to recommend how such impediments should be removed'.

Mr Mallabar was admitted to membership of The Institute of Chartered Accountants in Ireland in 1928 and commenced to practise on his own account the following year. Apart from being chairman of Harland & Wolff he is also a director of several companies including Chubb & Son Ltd and The David Brown Corporation Ltd. He is also an underwriting member of Lloyd's.

INLAND REVENUE APPOINTMENTS

The Board of Inland Revenue have announced that as from August 1st Mr F. H. Brooman has been appointed accountant and comptroller general in succession to Mr W. F. Bottrill Smith, C.B.E., who has retired from public service.

They also announce that as from the same date Mr H. H. Leedale has been appointed Controller of Surtax and Inspector of Foreign Dividends and that Mr D. S. Kirtley has been appointed Controller of the Superannuation Funds Office.

UNIVERSITY OF KEELE

Treasurer's Retirement after Nineteen Years' Service

Mr A. P. Walker, M.A.(KEELE), F.C.A., F.I.M.T.A., honorary treasurer of the University of Keele, retires from that office on September 30th.

Mr Walker was the first treasurer of the University College of North Staffordshire, having been appointed to the office by the Charter of Incorporation in 1949. He was, at that time, City Treasurer of Stoke-on-Trent, from which office he retired in 1954. He continued his interest in the University College and became the first treasurer of the University of Keele when the University College achieved full university status in 1962.

In conferring the honorary degree of M.A. upon Mr Walker last month, the Chancellor of the University, H.R.H. The Princess Margaret, referred to the 'unobtrusive, expert and unstinted service' given by him to the University, and its predecessor, during his nineteen years of office.

OFFICIAL RECEIVER APPOINTMENT

Mr E. G. Harper has been appointed Official Receiver for the purposes of the Companies Act 1948 attached to the High Court, with effect from July 29th, following the death of Mr J. L. Williams.

FOUR CENTURIES OF BOOKS

Scottish Institute's Catalogue

A second edition of The Institute of Chartered Accountants of Scotland's catalogue of its collection of printed books and pamphlets of antiquarian interest on accounting and allied subjects, housed in the Institute's library at Chartered Accountants' Hall, Edinburgh, has now been issued.

The catalogue consists of over four hundred items in ten languages, of which 120 have been added in the last five years since the first published catalogue was produced.

Only eight copies are known to exist of the most recent acquisition to the antiquarian book collection of the Institute. This book is *The Path-way to Knowledge, containing the whole art of arithmeticke . . . wherewith is also adjoyned a brief order for the keeping of merchants books of accompts, a way of debitor and creditor*, by John Tap, and was published in London in 1613. The two other copies that are in Scotland are in the libraries of the Universities of Aberdeen and St Andrews.

The collection is particularly strong in eighteenth-century books, of which it contains 172 examples. There are also 132 nineteenth-century books, 83 seventeenth-century, 27 sixteenth-century and 2 fifteenth-century.

Of topical interest are two books recently added to the collection which discuss the proposed decimalization of the British coinage: they are dated respectively 1872 and 1858!

Copies of the catalogue are available from the Institute's offices, 27 Queen Street, Edinburgh 2, price 2*s* 6*d*.

ACCOUNTANCY TUTORS' ENLARGED PREMISES

To mark the opening of new syndicate and study rooms at their London headquarters building, and to afford principals and partners – among other guests – an opportunity to meet members of the tutorial staff, a reception was held on Thursday of last week by H. Foulks Lynch & Co Ltd, the accountancy tutors.

Classroom accommodation is now provided on the third and fourth floors of the company's modern building and the new syndicate and study rooms – there are seven – are grouped around the lecture room so that students can split up for discussion periods or individual study.

Now that the development and conversion of the whole building is virtually completed, it has been possible to redeploy departments to better advantage on the various floors of the building and to provide greatly increased accommodation for students.

SECRETARIES' HANDBOOK ON EMPLOYMENT

The first of a series of three handbooks on the law relating to employment has been published by the Chartered Institute of Secretaries.

'These concise guides', states the Institute, 'are designed to contain in a practical and convenient form the basic information likely to be required by the company secretary or other administrative executive in industry, commerce or the public service'. The author, Mr A. H. Boulton, LL.B., F.C.I.S., was assistant secretary of Crompton Parkinson Ltd until his retirement in 1964.

Copies of Part 1 of *The Law and Practice of Employment*, price 12*s* 6*d* post free, may be obtained from the Institute's offices, 16 Park Crescent, London W1.

The Institute of Municipal Treasurers and Accountants

Results of Examinations held in May 1968

Places and Prizes will be awarded on the combined results of the May 1968 and November 1968 examinations

FINAL EXAMINATION – PART A

The following candidates have completed the Final Examination:

Armon, J. W., Essex C.C.

Bearpark, D. R., Wallasey
Bruce, G. W., Nottingham No. 1 H.M.C.

Clark, R., Manchester
Cox, G. R., Colchester

Farrell, M. B., Yorks (West Riding) C.C.

Gadbury, D. P., Bognor Regis U.D.C.

Harker, J. W., Durham C.C.
Hunt, A. M., Hammersmith

Macdonald, A., Dumbarton

Piggott, D., Blaby R.D.C.

Saxton, J., Nottingham

Townsend, B. R., Reading

Walker, P. G., Derbyshire C.C.
Whitney, G. C., Merthyr Tydfil

The following candidates have passed Part A of the Final Examination only:

Abbot, M., Basford R.D.C.
Allard, R., Sheffield
Allen, G. R., Northamptonshire C.C.
Andrews, C. N., Warrington

Baddeley, D. R., Buckinghamshire Water Board
Bahal, J. K., Kitwe (Zambia)
Baker, J. A., Lancashire C.C.
Balls, K. R., Lexden & Winstree R.D.C.
Bambrough, J., Peterlee Development Corporation
Bannister, J. W., Birmingham
Barber, R., Manchester
Bardsley, M., West Bromwich
Barker, W., Yorks (North Riding) C.C.
Barrett, J. L., Blackpool
Beech, M. O., Coventry
Beeson, G. A., Nuneaton
Bellas, P., Stockton R.D.C.
Benton, J. T., Sutton Coldfield
Birch, K., Worcester
Blackwood, G., Blackpool
Blair, I. C., Midlothian C.C.
Blyth, J. R., Lowestoft
Booles, J., St Helens & District H.M.C.
Booth, J. R. M., Ministry of Housing and Local Government (Leicester)
Borman, G., Hertfordshire C.C.
Bottomley, S., Bradford
Bradford, A. B., Pembrokeshire C.C.
Bramhall, R. A., Warwickshire C.C.
Brewin, R. E., Barrow upon Soar R.D.C.
Brierley, T., Macclesfield
Brock, D. M., Gillingham
Browne, P. G., Birkenhead
Burns, I. M., Leeds
Bushell, D. J., Waltham Forest
Bushell, G., Monmouthshire C.C.

Camsell, R., Morley
Catherall, R., Wombwell U.D.C.
Chambers, M. W. C., Greenwich
Clarke, J., Kitwe (Zambia)
Clifford, A. L., Derbyshire C.C.
Cockroft, J. R., Yorks (West Riding) C.C.
Collier, W., Nottinghamshire C.C.
Colton, A. R., Devon C.C.
Constant, D., Dalton-in-Furness U.D.C.
Cook, G., Southwark
Cooke, R. A., Waltham Forest
Cookson, J. S., Bolton
Coomber, C. J., Rochester
Cordon, I. A., Norwich
Corthorn, P., Chorley
Cousins, E. J., Isle of Wight C.C.
Cramp, D. J., Greater London Council
Crawcour, D. B., Durham C.C.
Crompton, F. B., Bury
Cull, B. T., Bournemouth

Darlington, P. E., Lancashire C.C.
Darlow, B. R., Bedfordshire C.C.
Deeprose, A. J., Kitwe (Zambia)
Dick, M., Northumberland C.C.
Dixon, B. J., Forehoe & Henstead R.D.C.
Dixon, J. L., Durham C.C.
Dixon, T., Lancashire C.C.
Dow, M. J., Leeds
Downs, J., Ministry of Housing and Local Government (Leeds)
Dowsett, M. R., Basildon U.D.C.

Ebdon, D. H., Ministry of Housing and Local Government (London)
Emmerson, A., Durham R.D.C.
Everett, L., Rotherham
Eynon, I. M., Greater London Council

Fellows, R. W., Watford
Fenton, J. A., Ministry of Housing and Local Government (Leicester)
Fenton, P., Stalybridge
Field, D. A., Devizes
Firman, D. A., Portsmouth
Ford, J. A., Glamorgan C.C.
Foster, A. L., Leicestershire C.C.
Foster, F. E., Wigan
Fowles, A. R.. Basingstoke
Francis, R., Staffordshire C.C.
Fraser, I. E., Derby
Fraser, S. M., Sheffield
Gass, B. A. J., Bury St Edmunds
Gaught, B. J., Suffolk (West) C.C.
George, M. E., Derbyshire C.C.
Gill, K. A., Rochdale
Glenister, P. J., Norfolk C.C.
Goble, J. E., Sussex (West) C.C.
Godber, C. G., Derbyshire C.C.
Goodridge, R. J., Devon C.C.
Gough, A. G., Pewsey H.M.C.
Griffiths, W., South West Wales River Authority
Gurney, D. A., Bedfordshire C.C.

Hackett, P., Walsall
Hall, C. E., Ministry of Housing and Local Government (Cardiff)
Harrington, I. D., Newham
Harrison, G., Nottinghamshire C.C.
Hartley, D. J., Oxfordshire C.C.
Hatch, P. S., Westminster
Hawes, R. L., Southend-on-Sea
Hawker, G. A., Abercarn U.D.C.
Haywood, J. P. S., Nottinghamshire C.C.
Herbert, K., Ministry of Housing & Local Government (Nottingham)
Herbert, T. E., Lewisham
Higgins, P. J., Eccles
Hobbs, J. E. B., Winchester
Hodges, S. L., Ashby de la Zouche R.D.C.
Hope, M. K., South Derbyshire Water Board
Horne, G. R., Luton
Hoyle, R., Lancashire C.C.
Hubbard, D. E., Gravesend
Hughes, J., Felling U.D.C.
Hyde, R., Sheffield

Jackson, F. S., SE. Metropolitan Regional Hospital Board
James, A. W. J., Wandsworth
James, J. H. B., Carmarthen
Jerrett, D. A., Bishop's Stortford U.D.C.
Johnson, G., Kingston upon Hull
Johnson, J. M., Stockport

Kariuki, Z. K., Nairobi (Kenya)
Kitchen, J., Leeds

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Lucas, T. A., Wallsend

Mabey, J. H., Harrow
Macready, S. J., Bullingdon R.D.C.
Maitland, M. W., Fylde Water Board
Marsden, P., Lancaster
Maynard, N. F., Lymington
Mays, M., Nuneaton
McCormick, G. F., Birkenhead
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Mercer, J., Leeds
Meredith, A., Sutton Coldfield
Messer, K. E., Wandsworth
Millar, W. W., Lanarkshire C.C.
Monks, E., Ministry of Housing and Local Government (Ormskirk)
Morgan, B. C., Ministry of Housing and Local Government (Winchester)
Morgan, W., Hammersmith
Morris, K. S., Blackpool
Mortimer, H. W., Warwickshire C.C.
Murray, G., Skipton R.D.C.
Murray, J. K., Hampshire C.C.

Newson, R. M., Coventry
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O'Callaghan, P. P., Kingston upon Thames
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Sandilands, P. A., Ministry of Housing and Local Government (Wolverhampton)
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Schofield, E. C. I., Sale
Shelley, R. J., Staffordshire C.C.
Silcox, J. D., Glamorgan C.C.
Simpson, B. R., Ministry of Housing and Local Government (Winchester)
Simpson, J. W., Bournemouth
Simpson, K. B., Harrogate
Skinner, P. W., Wellington (Salop) U.D.C.
Slater, J. L., Keighley
Sloan, G. D., Glasgow
Smalley, P. M., Yorks (West Riding) C.C.
Smith, A., Warrington
Smith, D. C., Ministry of Housing and Local Government (Sheffield)
Smith, J. K., Stoke-on-Trent
Smith, T. G., Ministry of Housing and Local Government (Newcastle)
Staddon, P. N., Sidmouth U.D.C.
Stanton, G. K., Ministry of Housing and Local Government (London)
Stares, B. N., Crewe
Stewart, G. M., Dunoon
Stone, R., Lewisham
Sutherland, G. B., Buckinghamshire Water Board
Sutton, G. W., Ministry of Housing and Local Government (Chester)

Talbot, P. T., Morecambe and Heysham
Taylor, D. S., Newport
Taylor, M., Northumberland C.C.
Temperton, P., Huntingdonshire and Peterborough C.C.
Thomas, R. H., Dudley
Thompson, S., Gateshead
Thorogood, P., National Institute of Public Administration (Zambia)
Tolkien, D. J., Plymouth
Tomlinson, E., Burnley
Tootell, J. S., Bolton
Topliss, N. R., Ilkeston
Townsend, D., Wath-upon-Dearne U.D.C.
Tuck, D. G., Bedfordshire C.C.
Tuck, M., Cheshire C.C.
Turpin, R. H., Bromley

Vallender, R. M., Ministry of Housing and Local Government (Aylesbury)
Van Der Does, D. R. L., Birmingham

Walker, J. R., Hetton U.D.C.
Walker, M. K., Sheffield
Walters, A. K., Coventry
Watkins, R. R., Worcester
Watson, M., Durham C.C.
Welch, D. J. W., Somerset C.C.
Weston, B. G., Stroud R.D.C.
Whalley, D. K., Accrington
Whale, R. J., Kidderminster R.D.C.
Whittaker, F. A., Liverpool
Wigg, B. J., Norfolk C.C.
Wilkins, A. R. Oxfordshire C.C.
Wilkinson, J. D., Lincoln
Will, A. J., Ministry of Housing and Local Government (Leeds)
Willetts, C. F., Worcestershire C.C.
Williams, D., Leeds
Williams, D. J. E., Aldridge-Brownhills U.D.C.
Williams, J. R., Buckinghamshire C.C.
Williams, S., Kirkby U.D.C.
Willis, R. A., Droitwich
Wilson, B., Durham C.C.
Wilson, B., Durham C.C.
Wilson, F. G., Doncaster R.D.C.
Wollaston, S. J., Esher U.D.C.
Wolstencroft, I., Tadcaster R.D.C.
Woodcock, B., Cheshire C.C.
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Woollard, C. E., Mansfield
Wooller, D. W., Battle R.D.C.
Wright, D., Thorne R.D.C.

Yates, A. W., Birkenhead
Yerrill, A. J., Cambridge
York, R. M., Warley
Youle-Grayling, P. W., Dudley

PART B

The following candidates have completed the Final examination:

Allen, N. E., Chgwell U.D.C.
Andrew, F., Ministry of Housing and Local Government (Stockport)
Andrews, D. V., Essex C.C.
Andrews, W. J., Dudley
Ashton, J. A., Turton U.D.C.
Avery, R. C., Southampton

Bailey, J. F., Bradford
Bancroft, D. R., Lewisham
Bardsley, P. D., Salford
Barker, J. B., Bournemouth
Barnett, M. J., Worcestershire C.C.
Benfield, R. C., Richmond upon Thames
Bowman, R. C., Ministry of Local Government and Housing (Zambia)
Boxall, M. S., Coventry
Bramhall, A., Warrington
Bright, H. N., Worcestershire C.C.
Broadribb, W. H. J., Portsmouth
Brookes, A. J., Sutton
Broomfield, P. M., Plymouth
Brown, J. A. C., Stirling C.C.
Bryant, C. L., Llantrisant & Llantwit Fadre R.D.C.
Burgess, J. H., Coventry
Buttery, R., Nottingham

Caldicott, D. F., Worcester
Calladine, P. F., West Denbighshire & West Flintshire Water Board
Carter, D. J., Colchester
Castell, P. T., Flintshire C.C.
Clarke, R. J., Gt Yarmouth
Clelland, R. T., Glasgow
Collins, J. B., Camden
Cope, A., Derbyshire C.C.
Cordle, P. L., Coventry
Cotter, E., Gloucestershire C.C.
Crafter, D. E., Greenwich

Darbyshire, A. G., Berkshire C.C.
Davies, H. G., Cheshire C.C.
Davies, J. R., Walsall
Deighton, A. L., Bradford
Dolby, G. H., Ilkeston
Drinkwater, C., Northwich U.D.C.
Driver, G., Eccles
Duley, G. J., Electricity Council
Dummett, P., Devon C.C.
Dutson, B. J., Worcestershire C.C.

Edwards, B. J., Worcestershire C.C.
Edwards, J., Ministry of Housing and Local Government (Taunton)
Edwards, W., Lambeth
Ennis, C. V. B. E., Greater London Council

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Gann, D. K., Kensington and Chelsea
Gardiner, A., Rotherham
Goddard, E. A., Renfrew C.C.
Godfrey, R. C., Bath
Green, R., Brentwood U.D.C.
Greenshields, G. J., Midlothian C.C.
Greville, W. P. L., Carmarthen R.D.C.

Haizelden, D. E., Tunbridge Wells
Hall, A. H., Basildon U.D.C.
Hamer, C., Oldham
Hancock, G., South Shields
Head, R. H., Brighton
Heaton, M. R., Birmingham
Heys, M., Staffordshire C.C.
Higgins, D. E., Yorks (East Riding) C.C.
Hill, D. R., Taunton
Hill, R. J., Gravesend
Hilsden, J. R., St Albans
Holder, D. G., Hastings
Holmes, G., Monmouthshire C.C.
Hughes, J. H., New Windsor
Hunt, R. J., Luton
Hutchins, D. E., Surrey C.C.

James, R., Liverpool
Jeary, P., Reading
Johnson, P. W., Nuneaton
Johnson, R. D., Birmingham

Kerton, K., Monmouthshire C.C.
Kurz, R. C. W., Essex C.C.

Laggett, W. H., Basford R.D.C.
Latham, D. M., Nuneaton
Lawton, J. H., Wigston U.D.C.
Lewis, F. J., Basildon U.D.C.
Lock, M. C., Essex C.C.
Love, D. M., Morecambe and Heysham
Lowe, C. J., Norwich
Lupton, T. J. P., Gosport

Maguire, A. R., Salford
Mann, A., Newport Pagnell R.D.C.
Marsh, J., Blackburn
Mcfarlane, J., Glasgow
Miles, M. A., Ministry of Housing and Local Government (Stafford)
Morgan, D., Staffordshire C.C.
Morgan, P. G., Liverpool
Mortimer, R. W., Kensington and Chelsea
Mouland, J. C., Brighton
Moxom, N. C., Bromley
Mullineux, E. E., Ministry of Housing and Local Government (Birkenhead)
Mullis, S. H., Northumberland C.C.

Nicholson, A. F., Ministry of Housing and Local Government (Lincoln)
Nicholson, W. B., Bury
Niven, S., Walton-le-Dale U.D.C.

Oakley, J., Luton
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Osborne, M., Devon C.C.

Packham, D. W. A., Felixstowe U.D.C.
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Parsons, A., Warley
Pawsey, H., Salford
Peacock, R., Harrogate
Pegington, A. E., Nuneaton
Phelps, B., Southampton
Pidd, F. E., Doncaster
Pucknell, S. J., Ministry of Housing and Local Government (Hove)
Purle, R. W., Potters Bar U.D.C.

Rackstraw, A. N., Reading
Redwood, K. J., Gelligaer U.D.C.
Reeves, R., Brighton
Riley, J. D., Manchester
Robertson, R. G. C., Teesside
Robinson, M. G., Carlisle
Roddis, A. P., Rotherham
Rodger, A. M., Eastbourne
Rothery, M. W., Buckinghamshire C.C.
Russell, P., Barnet
Rutter, W. K., Mersey and Weaver River Authority
Rymer, R. G., Cheshire C.C.

Sainsbury, R. G., Kensington and Chelsea
Samman, J. A. C., Lambeth
Sharp, K., Shipley U.D.C.
Shepherd, J. D., Carlton U.D.C.
Sheridan, V., Bradford
Shield, A. M., Newcastle
Sisson, G. M., Chapel-en-le-Frith R.D.C.
Sizer, A. L. W., Barnet
Skinner, A. D., Worsley U.D.C.
Skinner, R. A. (Mrs), Coventry
Smallman, D. E., Staffordshire C.C.
Smith, A. D., Devon C.C.
Smith, D. C., Reading
Smith, R. J., Stafford
Smithson, R. C., Oxford
Sprigg, J., Ministry of Housing and Local Government (Bolton)
Southwood, P. J., (Mrs) Essex C.C.
Staker, R., Sussex (West) C.C.
Stanley, R. J., Hampshire C.C.
Statham, N. R., Wolverhampton
Steady, J. A., Glamorgan C.C.

Taylor, R. L., Leeds
Teasdale, J. R., Portsmouth
Templeman, J. G., Huntingdon and Peterborough C.C.
Thompson, I. G., Rawtenstall
Thorpe, M. A., Staffordshire C.C.
Towers, M., Durham C.C.
Troman, J. W., Ministry of Housing and Local Government (Ormskirk)

Unwin, R. J., Suffolk (West) C.C.

Vine, M. A., Worcestershire C.C.

Walker, K., High Wycombe
Walsh, B., Stratford-upon-Avon
Ward, I. H., Westmorland C.C.
Wardle, R., Durham C.C.
Waterhouse, R. J., Salford
Wetherill, I. H., Salop C.C.
Wilkinson, J. R., Blackburn
Williams, G., York
Willingham, P., Brighton
Wilson, L., Coventry
Wilson, R., Newburn U.D.C.
Winder, P. G., Westmorland C.C.
Winter, D. C., Huntingdon and Peterborough C.C.
Winterburn, J., Leeds
Wootton, D. M., Hampshire C.C.

The following candidates have passed Part B of the Final examination only:

Archer, J. C., Durham C.C.

Beaumont, F., Manchester
Briggs, K. S., Glamorgan C.C.

Chamberlain, A. F., Portsmouth
Cross, C. J., Hammersmith

Edmundson, R., Durham C.C.

Flanagan, M. J., Salop C.C.

Gairn, J. R. D., Midlothian C.C.

Heald, T. D., Mold U.D.C.
Hurford, P. G., Lincolnshire (Lindsey) C.C.
Hutchinson, K. E., Greenwich

James, L. M., Glamorgan C.C.
Jones, J. R., Southern Gas Board

Kasmani, S., Ministry of Local Government (Kenya)

Lester, J. J., Kingston-upon-Thames

MacLeod, D. G., Hampshire C.C.
Mills, A. J., West Bromwich
Morrell, J. R. E., Nottingham

Porter, R., Salford

Smith, P. J., East Midlands Gas Board
Stepney, M. J., Eastbourne

Trethewy, M. E., Cheshire C.C.

Walker, D. T., Durham C.C.
Wash, J. G., Essex C.C.
Weir, W., Stirling C.C.
White, J. R., Trowbridge U.D.C.
Willans, P. J., Durham C.C.
Williamson, D. J., Oldham

SUMMARY OF RESULTS

	Intermediate		*Final – Part A*		*Final – Part B*		*Total*	
	No.	*%*	*No.*	*%*	*No.*	*%*	*No.*	*%*
Passed	348	32	274	35	204	44	826	35
Failed	740	68	505	65	262	56	1,507	65
	1,088		779		466		2,333	

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THE ACCOUNTANT
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Supplement
The Accountant Synopsis of the Finance Act 1968

Investment Trust Accounts

THE financial accounts of investment trust companies are inherently straightforward documents, the principal items in the balance sheet being capital on the one side and investments on the other. The chief item in the revenue account is dividends received and the only other substantial figure to be reckoned with is the slice of tax which has to be borne before the amount available for appropriations is struck. The measurement in money symbols of all these items – capital, investments, dividends and tax – is a comparatively easy task.

Within this seemingly simple foursquare framework, however, lie a surprising number of variations in the method of presentation and, in order to help members to decide what constitutes the best practice, the Council of The Institute of Chartered Accountants in England and Wales have just issued a statement containing a number of recommendations which we have pleasure in reproducing elsewhere in this issue. An unusual feature of this statement is that the recommendations occupy more space than the preliminary text.

The recommendations begin with the debatable pronouncement that investments held by investment trust companies should be regarded as fixed assets. This would only be so if the same investments were held permanently but as the passport to retention in any first-class portfolio is good performance, only the most azure of 'blue chips' can be regarded as fixed.

Also, all progressive trusts are constantly on the look-out for possibilities of capital appreciation through the medium of growth stocks held on a temporary basis. It could equally well be argued, then, that the contents of its portfolio constitute an investment trust's stock-in-trade. In any case, the distinction between capital and revenue profits and, indeed, that between investment and finance companies has been blunted by the introduction of that great leveller – the capital gains tax. It would seem, therefore, that as long as an investment trust describes its portfolio in the balance sheet as 'Investments', it matters little to what category of asset in a manufacturing company's balance sheet it approximates.

The Council suggests two methods for the balance sheet valuation of investments – cost (or revaluation at a past date) with a note of the market value; or market value with directors' valuations for unquoted investments, the corresponding double entry adjustment being made in the appropriate capital reserve. The fact that most investment trusts use the second method indicates that managements tend to regard the portfolio as an entity constantly changing both in content and value and as such should be incorporated in the financial accounts on a current rather than on a historical cost basis.

The recommendations include helpful notes on the treatment of capital gains tax liabilities, actual and (where the portfolio has been revalued) potential; on the effect of the premium on investment currency on these calculations; and on the form the revenue account must take in order to comply with Schedule 2 to the the Companies Act 1967.

FINANCE ACT 1968

Estate Duty and Gifts

BEFORE estate duty was invented in 1894 there were already duties payable on death. In 1881 legislation was passed to prevent the avoidance of such duties by means of gifts made within three months before the death. Eight years later the three months' period was extended to twelve months; then in 1910, three years was substituted except for gifts made for public or charitable purposes. However, at the same time, certain gifts were exempted altogether. These were:

> 'gifts which are made in consideration of marriage, or which are proved to the satisfaction of the Commissioners to have been part of the normal expenditure of the deceased, and to have been reasonable, having regard to the amount of his income, or to the circumstances, or which, in the case of any donee, do not exceed in the aggregate £100 in value or amount' (section 59 (2)).

Successive Governments have seen to it that £100 in 1968 is worth very considerably less than £100 in 1910, and in 1946 the three years became five years. Now, by section 35 (1) of the Finance Act 1968, the five years becomes seven years, 'except as respects a period beginning on or before March 19th, 1963'.

March 19th, 1963, is exactly five years before the day in 1968 when the CHANCELLOR OF THE EXCHEQUER announced in his Budget speech that the statutory five years were to become seven years. A donee who, on March 19th, 1968, had done all but one day of his five-year stint might well have regarded himself as safe, provided, of course, that he had not incautiously permitted the donor to have some related benefit 'by contract or otherwise' including 'associated operations'; and provided that the donor was not in a position to obtain these things without the donee's permission. But under section 35 (1) he has another two years to go. So much for the claim that this year's tax legislation is not retrospective. If the gift was on March 18th, 1963, the period would have begun before March 19th, 1963, and the period would still be five years.

The Finance Act 1960, by section 64, introduced a system of gradation where the donor had survived the gift by two years or more, without surviving the statutory five years. The value of the gift for duty purposes had to be reduced by 15 per cent if the death occurred in the third year, i.e., in the first of the last three years. If the donor did not die until the fourth year, i.e., the second of the last three years, the reduction was 30 per cent. For the last year the reduction was 60 per cent.

Section 35 (2) of the 1968 Act now transfers the reductions to the last three years of the seven-year period. Thus for gifts made after Budget day there is no reduction until the donor has survived four years, instead of two years. For gifts made before Budget day, the CHANCELLOR promised that the donee should not lose reductions which he had already earned on that day. Accordingly, section 35 (4) provides that section 35 (2) shall not have effect so as to give a lesser percentage reduction than would have been available had the donor died on March 19th, 1968. This concession is lost, however, if between March 19th, 1968, and the actual date of death, the deceased was not entirely excluded from possession and enjoyment of the property given and of any benefit to him by contract or otherwise, including, of course, 'associated operations'.

The statutory five-year period operated not only in relation to gifts but also in relation to a number of other provisions, including those in section 46 of the Finance Act 1940 for imposing liability on companies in respect of their own assets where the deceased had made a transfer and had rights to enjoy the company's income. Here, too, the period is increased to seven years, with complicated transitional provisions.

Returning to gifts, section 59 (2) of the Finance (1909–10) Act 1910, at the time the period of one year was extended to three years, entirely exempted certain gifts. The principal of them were 'gifts which are made in consideration of marriage'. The House of Lords gave a wide construction to this phrase in *C.I.R. v. Rennell* (42 A.T.C. 55) which prompted the passing of section 53 of the Finance Act 1963, drastically cutting down the scope again. The section, however, imposed no limit to the amount of duty which could be saved in this way, provided only that the conditions of exemption were satisfied.

This happy state of affairs is now rigorously dealt with by section 36 of the Finance Act 1968 which, however, has effect only as respects gifts made after March 19th, 1968 (subsection (7)). The subsection goes on to say that the section has effect 'in the case of a death after that date', as though it were possible for a person to die before March 19th but to make a gift after that date.

Subsection (6) takes out of the 1910 Act the words 'which are made in consideration of marriage'. References to them in section 53 of the 1963 Act and in other earlier Acts are to be read as references to section 36 of the 1968 Act. This approach may be a very convenient one for Parliamentary draftsmen but it makes nonsense of the lip-service paid by the Government to the need for simplifying tax legislation. What should have been done was to enact a comprehensive new section dealing with the whole subject of exemption in favour of marriage gifts, and repealing section 53.

Subsection (1) of section 36 confers a £5,000 exemption for a marriage gift which falls into any one of three stated categories. Subsection (2) confers a £1,000 exemption for marriage gifts of all other categories. Each subsection begins, somewhat oddly, with the phrase 'Where the deceased made a gift in consideration of marriage'. Subsection (3) imposes an omnibus maximum of £5,000 under subsection (1) and £1,000 under subsection (2) 'in the case of any one death', as though 'the deceased' mentioned in subsections (1) and (2) were capable of more than one death

The three categories of subsection (1) are worded as follows:

(*a*) the gift was an outright gift to a child or remoter descendant of the deceased;

(*b*) the deceased was the parent or remoter ancestor of either party to the marriage, *and either*
  (i) the gift was an outright gift to the other party to the marriage; *or*
  (ii) the property comprised in the gift was settled by the gift;

(*c*) the *deceased* was a party to the marriage, *and either*
  (i) the gift was an outright gift to the other party to the marriage; *or*
  (ii) the property comprised in the gift was settled by the gift.

'Child' here includes an illegitimate child, an adopted child, or a stepchild. 'Parent', 'descendant' and 'ancestor' are construed accordingly. This could have added a new twist to those Victorian dramas where the hero's benefactor turns out to have been his father. The surprise would have been all the more pleasant if it brought some escape from estate duty on the benefactions.

What is meant by 'settled by the gift?' Section 36 has to be construed as one with the Finance Act 1894, section 22 (1) of which, in effect, brings in the Settled Land Act 1925. Under that Act, 'settled property is property "limited in trust for any persons by way of succession" ' (section 1 (1) (ii) (*d*), (2), (3)).

For gifts in these three favoured categories, section 36 (2) enacts as follows:

> '(i) if the principal value of the property comprised in the gift did not exceed £5,000, section 2 (1) (*c*) of the Finance Act 1894 shall not apply to the gift, and
>
> '(ii) if the principal value of the property comprised in the gift exceeded £5,000, the said section 2 (1) (*c*) shall only apply to the excess.'

In fact, section 2 (1) (*c*) (another example of legislation by reference) covers many things besides gifts, but section 36 (8) makes it clear that the section is referring only to the 'gift' aspect of section 2 (1) (*c*). It is clear that the valuation has to be made as at the time of the gift, not as at the death of the deceased. Otherwise the donee would never know until the death where he stood. Suppose the gift was of a piece of property worth £7,000 at the date of the gift; suppose further it was worth £10,000 at the date of the death within four years. Presumably the donee would pay duty on ten-sevenths of £2,000.

Section 36 (2) deals with gifts not within the three favoured categories and it confers relief in identical words, but substituting £1,000 for £5,000.

Can a man with seven sons give them £5,000 each on their respective marriages and thus avoid duty on £35,000 for them? The answer seems to be 'yes'. However, section 36 (3) imposes an omnibus maximum of £5,000 for any one marriage in relation to any one donor. Thus if two cousins married each other, and their mutual grandfather gave them £5,000 each in consideration of the marriage, both gifts would, prima facie, qualify under section 36 (1) (*a*). But since there is only one donor and only one marriage, section 36 (3) cuts the total exemption down from £10,000 to £5,000. The two donees share the £5,000 exemption between them in proportion to the values of their respective gifts: half each, in this example.

Section 36 (3) imposes a similar restriction in respect of the £1,000 exemption. Thus one donor on one marriage cannot make completely exempt gifts amounting in the aggregate to more than £6,000. To achieve even this he must see that his total gifts within subsection (1) are not less than £5,000 and his total gifts within subsection (2) not less than £1,000. Exemptions not used up under the one subsection are not available under the other subsection. The £5,000 and the

£1,000 are, of course, the full values without any percentage reduction under section 64 of the Finance Act 1960, as amended by section 35 (2) of the 1968 Act.

The exemption in the 1910 Act for gifts to one donee which do not exceed £100 in the aggregate, still remains (as does the exemption in certain circumstances for £500 gifts), so such gifts – even if made in consideration of marriage – would not be brought into account in arriving at any restriction under section 36 (3) because that is a restriction only of the exemption conferred by that section.

The £100 exemption is the only exemption now left in section 59 (2) of the 1910 Act. The references to normal expenditure are now removed as respects a gift made after March 19th, 1968, and in the case of a death after that date. This is done by section 37 (3) and (4) of the 1968 Act. Section 37 (1) repeats the exemption in general, but with different words. In one respect there is an improvement; it is not essential to satisfy the Inland Revenue; if the Revenue is not satisfied then the donee can appeal to the Court and satisfy the Court. Moreover the word 'reasonable', as a requirement, has been dropped. What the donee has to show now is that:

(i) the gift was part of the normal expenditure of the deceased; *and*

(ii) the deceased made the gift out of his income; *and*

(iii) after allowing for all gifts forming part of his normal expenditure the deceased was left with sufficient income to maintain his usual standard of living.

Current Affairs

Synopsis to the 1968 Finance Act

THE supplement with this issue – *The Accountant* Synopsis of the Finance Act 1968 – features the extensive provisions relating to the new special charge on the investment income of individuals, together with the many other new provisions relating to income tax and surtax.

Detailed consideration is given to the substantial amendments to selective employment tax, the changes made in estate duty, the amendments to corporation tax, including the transitional provisions, and on chargeable gains, both long-term and short-term. Other matters include betterment levy, stamp duty, and exchange control. Extensive coverage is given to the twenty schedules of the Act relating to the above matters which occupy over half the text.

The synopsis is designed for easy reference as an extended index to the Act and can be conveniently folded to slip into the reader's copy of the Act.

Institute's New Council Member

MR R. H. TAYLOR, F.C.A., a partner in the firm of Larking, Larking & Whiting, of Bury St Edmunds, was elected a member of the Council of The Institute of Chartered Accountants in England and Wales at a meeting of the Council held on August 7th and reported elsewhere in this issue. His election fills the vacancy caused by the resignation of Mr G. G. G. Goult, F.C.A., of Ipswich, announced in *The Accountant* of July 13th.

Admitted to membership of the former Society of Incorporated Accountants in 1943, Mr Taylor became a partner in his present firm the following year. He served as Secretary of the East Anglian Society of Incorporated Accountants from 1950 to 1955 and was elected President of that Society in 1957. He was also a member of the Incorporated Accountants' Taxation and Research Committee for two years from 1950 to 1952.

Since integration, he has been a member of the Committee of the East Anglian Society of Chartered Accountants; Chairman of the Society's Cambridge Branch in 1959–60, and President of the East Anglian Society in 1966. As one of the Society's representatives on the Institute's Technical Advisory Committee he has been particularly interested in accountancy services in relation to agriculture.

A member of the West Suffolk County Council from

1961–1967, he was vice-chairman of the Accounts and General Business Committee and of the Staff Committee for a number of years. He is at present on the board of governors of the West Suffolk College for Further Education and a member of the board of managers of several primary schools.

Mr Taylor is also a member of the board of directors of Bury St Edmunds Theatre, a past captain and chairman of the Bury St Edmunds Golf Club, and a past president of the Bury St Edmunds Rotary Club.

Principals' Savings on Articled Clerks

SAVINGS of around £100 per articled clerk can accrue to principals who may seek to benefit from a statement just issued by the Council of The Institute of Chartered Accountants in England and Wales. The statement, which is reproduced at page 222 of this issue, relates to study leave during which, if the articled clerk receives no remuneration in cash or in kind and the articles stipulate that no remuneration is payable during study leave, then similarly there will be no liability for selective employment tax, or for national insurance save Industrial Injuries Contributions.

The standard form of articles until now has included an optional covenant by the principal to pay the clerk during study leave, and where such articles are in force a formal endorsement under seal should be executed (a specimen deed appears with the statement). In new articles the optional covenant should be substituted by a declaration that remuneration for study leave will not be paid.

The statement envisages the payment of increased remuneration during working periods to compensate for loss of study leave pay and it warns that the national insurance status of the articled clerk should be borne in mind.

Over the full term of five years, articled clerks sitting the Intermediate examination and two parts of the Final during articles can have an entitlement to study leave and examination time of some twenty-five weeks. On September 2nd selective employment tax for male employees of eighteen and over will be 37*s* 6*d*; the employer's element of the national insurance contribution for similar employees not contracted out of the graduated pension scheme is now 41*s* 6*d* and for those who have contracted out it is 43*s* 11*d*. According to circumstances, therefore, the total savings on each articled clerk may, as stated, be in the region of £100.

Unrestricted Partnerships

THE statutory restriction on partnerships of more than twenty members (Companies Act 1948, section 434) has been further relaxed as from August 7th. From that date persons who are registered as patent agents under the Patents Act 1949 can join in a partnership of patent agents to any number. At the same time there are relaxations in favour of the following activities: surveying, auctioneering, valuing, estate agency, land agency, estate management. A partnership carrying on any of these activities can have any number of partners provided that not less than three-quarters of the partners are members of any of the undermentioned bodies: The Royal Institution of Chartered Surveyors; The Chartered Land Agents' Society; The Chartered Auctioneers' and Estate Agents' Institute; The Incorporated Society of Valuers and Auctioneers.

These relaxations are made by S.I. 1968, No. 1222, The Partnerships (Unrestricted Size) No. 1 Regulations 1968 pursuant to section 120 (2) of the Companies Act 1967, under which relaxations were made in favour of solicitors, accountants and stockbrokers. The section came into force on July 27th.

Integration of the Profession

IN the published proposals for the development of the profession in the British Isles, reference is made to 'other accountancy bodies' with whom discussions are being held. One of these, the Association of International Accountants, has recently issued a report to its members on the progress of these discussions. A summarized account is given of the meetings, starting in March 1966, which have taken place between representatives of the Association and the Joint Steering Committee. While the report concludes with an expression of dissatisfaction that 'the full details of the scheme, so far as it related to the Association, were not . . . published as part of or as an addendum to the main scheme' in July, it is stated that details of recommended entry-criteria for members of the Association are to be issued in September.

The Society of Commercial Accountants – not one of the three 'other accountancy bodies' mentioned in the published proposals – has announced that it has 'declined to enter into negotiations for its admission' to the scheme. It gives as its reasons 'a radically different view of the nature of the profession from that of the participating bodies' and 'the adverse effect which entry would have on the status of its members'.

13th Century Writ Against Former Partner Dismissed

A MOVE to invoke a thirteenth century legal process to stop a man alleged to owe money from leaving the country failed in the High Court on Monday. Mr Justice Megarry ruled that two chartered accountants could not obtain a writ of *ne exeat regno* to stop their former partner from going to Thailand.

The writ was last granted in 1893. It was last sought – unsuccessfully – in 1957. Mr Justice Megarry said the existence of the writ should be more widely known. 'A tool of the law, if of any utility, ought not to be left to rust away through ignorance of its existence' he said.

Mr Anton Peter Felton, A.C.A., of Holmwood, Hadley Green, Barnet, Herts, and Mr Owen Thomas Kelaart Sela, A.C.A., of Kingsley Place, Highgate, London N., had asked the Vacation judge to grant the writ against Mr Sidney Callis, F.C.A., of Church Crescent, Muswell Hill, London N. The partnership has been dissolved, and Mr Felton and Mr Sela claimed that Mr Callis had agreed to pay £2,995, owed by the partnership to its bank on overdraft. The judge said the writ would stop Mr Callis leaving until the money was paid or security given for it. Mr Felton and Mr Sela claimed that Mr Callis had sold his house and intended leaving for Thailand at the week-end.

In the thirteenth century the writ was used by the Crown to stop people leaving England when 'the safety and benefit of the Realm' was involved. But by Elizabethan times it had begun to be used by private individuals. In 1734 the Lord Chancellor acknowledged that it was used 'in aid of the subjects in helping them to justice'. Under the Debtors Act 1896, if a writ were issued the Sheriff could compel the debtor to give security for the amount owing. If security were not given the debtor was liable to go to prison.

Mr Justice Megarry said that Mr Callis's absence abroad might prejudice Mr Felton and Mr Sela in obtaining the fruits of an action they had started against him. But that was not enough. The Debtors Act had curtailed the powers of the Courts. Where a creditor had yet to obtain judgment and the debtor's presence was not requisite for this purpose the Court could not restrain the departure of the defendant.

The claim for the writ was dismissed, together with a claim that Mr Callis pay the bank the money forthwith. The judge said that there was some uncertainty as to precisely how much was due.

This is My Life

by An Industrious Accountant

ITEM number four on the agenda of the board meeting read 'Approval of audit fee'. This charge is invariably passed at board level prior to being formally sanctioned by the shareholders at the next annual general meeting.

As is customary, the statement of account gave brief details of the work carried out and I had attached a tabulation of the three preceding years' charges for audit, tax, and out-of-pockets to show the trend. It was upward, naturally, as is the general cost trend nowadays. As might have been expected, however, the eyebrows of our directors rose upwards simultaneously.

The managing director did a spot of table-tapping with his pencil, this being his usual warning of mounting indignation. Old-time kings were traditionally wont to hand out buffets to messengers bearing bad news, and while the practice has lapsed in our more sophisticated days – fortunately for accountants in industry – the M.D. sometimes looks ready to revive the habit.

It seemed regrettable, he said coldly, that costs of this nature could escalate so freely, while our current retrenchment policy was being pressed rigorously in all other departments. Cost-reduction was an overriding 'must' for a distributive company. Had we no control over this unanticipated expenditure? Had we been consulted prior to its being incurred?

Amid a general murmur of dissatisfaction I referred to the copy of our auditors' covering letter, also circulated to those present, which outlined the reasons for the increases. Actually, as extenuatory letters go, it was a blot on the landscape. It referred in a single terse paragraph to additional work performed while advising on S.E.T. problems and prior Schedule D adjustments, as well as to mounting administrative overheads including salary rises, and concluded with a courteously formal expression of goodwill. In terms of modern client-impact it was a dead loss.

Meanwhile, the deputy-chairman had surfaced with a real pearl of wisdom. What about our internal auditors, he wanted to know. Shouldn't their existence justify a substantially reduced audit fee? Alternatively, was there duplication of work between the two sets of experts? Personally, he couldn't see why one bunch of them shouldn't be more than enough for anybody nowadays, and what was all this rationalization guff he'd been reading about, anyway?

Some irrelevant comments about auditors' functions, some of them verging on the libellous, followed with regrettable unanimity. Directors' reactions tend to be depressingly predictable. It's always been fashionable to jibe at auditors until it's now become an automatic reflex gesture. My references to the independent viewpoint, shareholders' rights and statutory obligations were brushed aside unceremoniously, so at length I fell back on an old but well-tried defence that all costs were increasing and even auditors must live.

The D.C. made the obvious rejoinder about not seeing the necessity, the subsequent laughter easing out the mood of the meeting. The M.D. then briskly delivered the verdict. Nothing was further from his wishes, he proclaimed, than to query professional fees; nevertheless control must remain firmly in the hands of the directors. A prompt discussion with the auditors must be arranged to see if it might not be possible through increased collaboration with our internal audit section to reduce the volume of routine audit work (like checking tots, said the D.C. vaguely) and unnecessary detail and to concentrate on the essentials. After all, the board had seen all the figures before the auditors even arrived. By this means the fee could be cut next year and worth-while savings effected. Perhaps the chief accountant would implement the decision forthwith.

I had my own ideas but held my tongue. I wanted that discussion to go on record.

Business Premises and Tax Relief

by H. S. A. MACNAIR, F.C.A.

THE relationship between beer and excise duties renders it perhaps not inappropriate that a number of income tax cases are concerned with the assessment of the profits of brewing. *Watney v. Musgrave* (1 T.C. 272) related to a claim to deduct the premium paid on acquisition of a tied house and its rejection has established the law on this point which remains in force except in so far as the Finance Act 1963 allows a 'mirror-image' relief where the recipient of a premium has been taxed on it under Case VIII of Schedule D.

It is interesting to note that in the *Watney* case Chief Baron Kelly reviewed the authorities from the revival of the income tax in 1842 up to 1880 (the date of the case), and confirmed that the annual cost of the building in or upon which the beer was produced – in particular the rent – is necessarily a deduction.

In *Reids Brewery Co Ltd v. Male* (3 T.C. 279) it was held that losses on advances to tenants on the security of tied houses were deductible and from this it was an easy step to the decision in *Smith v. Lion Brewery Co Ltd* (5 T.C. 568) that the statutory compensation levy borne by the brewery as landlord was a payment necessary for the purpose of enabling it to carry on and to earn profits in its trade.

The latter phrase occurs in the famous dictum of Lord Davey in *Strong & Co of Romsey Ltd v. Woodifield* (5 T.C. 215) and it was approved in *Morgan v. Tate & Lyle Ltd* (33 A.T.C. 184; 35 T.C. 367). It was unfortunate that the fall of a chimney through negligent maintenance should have made its impact felt over a wide field of tax law. Looking back it would seem that it was the negligent conduct of the business which represented the real ground for the decision, a line of reasoning illustrated by the decision in *C.I.R. v. Alexander von Glehn & Co Ltd* (12 T.C. 232) where Lord Sterndale, M.R., observed that the business could perfectly well be carried on without any infraction of the law at all.

The trader as landlord

Another point often quoted from the *Woodifield* case is that the fall of the chimney precipitated a loss which fell on the company in their character not of traders but of householders. This seems to have been allowed to obscure the issue of negligence but in *Harrods (Buenos Aires) Ltd v. Taylor-Gooby* (43 A.T.C. 6; 41 T.C. 450), Diplock, L.J., laid this ghost to rest by observing that you can always find some label other than 'trader' to describe the capacity in which a trader makes any disbursement for the purposes of his trade. He pays rent for his business premises in the capacity of 'tenant', rates in the capacity of 'occupier', wages in the capacity of 'employer', the price of goods in the capacity of 'buyer'. But if he has become tenant or occupier of those particular premises solely for the purposes of his trade, the money which he has expended in any of the capacities so labelled is a deductible expense in computing the profits of his trade.

In *C.I.R. v. Falkirk Iron Co Ltd* (12 A.T.C. 235; 17 T.C. 625) a company had entered into a lease of a warehouse for which it had no further use half-way through the term. Such sub-lettings as it was able to effect did not cover the rent payable. In allowing a deduction for the net outlay in later years, Lord Sands commented that every company carrying on business makes future contracts and even if one of these turns out to be a source of liability rather than profit it is still true that expenditure laid out in fulfilment of the contract ranks as expenditure for the purposes of the business. This proposition held good in relation to one of several shops where the prospective future unprofitable period ran for twenty-eight years (*Hyett v. Lennard* (19 A.T.C. 180; 23 T.C. 346)).

Unprofitable premises

Is it ever permissible to acquire premises which will be a charge on profits? The circumstances in *Allied Newspapers Ltd v. Hindsley* (16 A.T.C. 98; 21 T.C. 422) were special in that a site was acquired and built on for letting with the motive of obtaining control of the traffic in the access way which served both that building and the company's printing works. However, in *Usher's Wiltshire Brewery Ltd v. Bruce* (6 T.C. 399), it was the common case of tied houses let to tenants which came up for consideration.

Although the tenants were legally bound to do the repairs, the brewery company found it expedient to shoulder this burden and the validity of the claim to deduct the expense for tax purposes found its highest commendation in the oft-quoted dictum enunciated at a later date by Lord Cave, L.C., in *British Insulated and Helsby Cables Ltd v. Atherton* (5 A.T.C. 47; 10 T.C. 155) to the effect that a sum of money expended, not of necessity and with a view to a direct and immediate benefit to the trade but voluntarily and on the grounds of commercial expediency, and in order indirectly to facilitate the carrying on of the business, may yet be expended wholly and exclusively for the purposes of the trade.

Questions as to the deductibility for tax purposes of expenditure on repairs and renewals of business premises raise in its most acute form the problem of distinguishing capital from revenue. The quest of dramatic purists for the classic unities of time, place and action has its parallel, it may be argued, in the tests of continuity of existence, identity in space and subordination of function which are applied by the Courts in this context.

Section 137 of the Income Tax Act 1952, prohibits the deduction of any capital employed in improvements of premises occupied for the purposes of the trade, profession or vocation and references to *the* trade recur throughout that section. Hence the attack most readily developed by the Revenue is to deny that the expenditure was incurred by reason of dilapidation attributable to a period falling within the period of occupation by the business against the profits of which the deduction is sought to be made.

Some sympathy may be felt with the Inspector faced with a claim to deduct £2,295 expended on reinstatement of shop premises acquired in the basis period and which had previously stood empty for many years (*Jackson v. Laskers Home Furnishers Ltd* (35 A.T.C. 469; 37 T.C. 69)).

Continuity of trade

In the case of a continuing business mere antiquity of the premises is insufficient grounds for the refusal of a claim. In *Conn v. Robins Brothers Ltd* (45 A.T.C. 59; 43 T.C. 266) £2,736 out of total expenditure of £3,817 was claimed and allowed, although the premises were scheduled as an ancient monument. They had been occupied for the previous eighteen years at a rent of £75 per annum and the work done included stripping the roof slates and rotten timbers and replacing with asbestos. The inner wall and chimney stack supporting the upper floors and roof were replaced by steel joists, and various other works were carried out but no additional space was created anywhere. The amount not claimed related to underfloor heating and other distinct improvements.

The emphasis on identity of spatial content echoes such cases as *William P. Lawrie v. C.I.R.* (31 A.T.C. 327; 34 T.C. 20) where the occasion of a repair was made use of to increase the cubic capacity but not even a proportion of the outlay was admitted as a deduction. Again, a change of location, even slight, is inconsistent with identity in space as shown in *O'Grady v. Bullcroft Main Collieries Ltd* (11 A.T.C. 181; 17 T.C. 93) and *Margrett v. Lowestoft Water & Gas Co Ltd* (14 A.T.C. 237; 19 T.C. 481).

The question of subordination of function is one which requires a somewhat narrow interpretation. When a slate is replaced it performs the same function as the worn-out or missing article; but the chimney in the *O'Grady* case and the reservoir in *Margrett's* case were each on a different site, as was the canal wall in *Phillip v. Whieldon Sanitary Potteries Ltd* (31 A.T.C. 82; 33 T.C. 213).

Obviously chimneys, reservoirs and walls everywhere serve to conduct gases, conserve water and keep out intruders but these structures cannot be said to have subordination of function unless identified with an entire structure in which they are replaced. As the *Robins Brothers* case indicates, it is necessary to view the entirety under repair in order to decide whether there is subordination of function so that in a case where a large chimney was physically, commercially and functionally an inseparable part of a factory which ranked as an entirety in its own right, it was permissible to deduct the cost of replacing it even though the replacement was in a slightly different position (*Samuel Jones & Co (Devonvale) Ltd v. C.I.R.* (30 A.T.C. 412; 32 T.C. 513)).

Change of premises

When it is necessary to move from one set of premises to another for reasons not within the taxpayer's control, it is likely that the costs of removal will be allowed so far as they are of a revenue nature. Under modern conditions the extra expense resulting to employees may have to be met and, to give an extreme example, should a complete factory be uprooted from one town and re-commence operations in another, then the cost of employees' removal would be accepted as a charge against the profits computed for Schedule D purposes. It would be wise to get in touch with the Inspector of Taxes beforehand to secure his agreement, and in any circumstances less clear-cut than in the above illustration the facts would have to be discussed in detail before the event if a firm ruling is desired as to what is and what is not to be allowable.

In considering a change of premises it is appropriate to focus attention first on the question as to whether a liability to the betterment levy will result. As regards the existing owner, the levy will impinge upon him under Case C where the carrying out of a project of material development of the land is begun, a rule which exempts development for which planning permission is granted by a general development order for the time being in force and which is carried out so as to comply with any condition or limitation subject to which planning permission is so granted.

Change of use

A point of practical importance is that material development can occur without tangible building operations which one might normally expect to be associated with development. The definition in section 12 of the Town and Country Planning Act 1962 refers not only to the carrying out of building, engineering, mining or other operations in, on, over or under land, but also the making of any material change in the use of any buildings or other land. Hence the unwitting purchaser of premises may find himself within the ambit of Case C if his proposed use is inconsistent with that of his predecessor.

Article 3 of the Town and Country Planning General Development Order 1963 (No. 709) declares that, in general, development of any class specified in Schedule 1 thereto is permitted and may be undertaken upon the specified land without further permission. Particular mention may be made of a change of use from a general industrial building to a light industrial building, that is, one in which the processes carried on or the machinery installed are such as could be carried on or installed in any residential area without detriment to the amenity of that area by reason of noise, vibration, smell, fumes, smoke, soot, ash, dust or grit. The latter definition is taken from Article 2 of the Town and Country Planning (Use Classes) Order 1963 which may be referred to when it is desired to take advantage of the rule that no development is attributed to a change of use within the same class.

Capital gains tax

A disposal of business premises is likely to be the occasion of a charge to capital gains tax. The general rule introduced by section 33 and Schedule 14 of the Finance Act 1967 is that current use value at the relevant time is to be taken as the measure of the consideration obtained on disposal or given on acquisition, with exceptions where the market value fails to exceed current use value immediately before the disposal or where an election is given under section 33 (3). The general assumption is that planning permission would only be granted for any development which does not constitute material development and that the market value from which current use value is derived is computed in accordance with rules in the Land Commission Act 1967.

Thus in Case C, paragraph 16 of Schedule 4 and the following paragraphs envisage the capitalization of a full market rent. The Land Commission have recently publicized their concern at the possible failure of developers to notify the Commission before beginning work on development for which they have received planning permission but it remains true that many transactions in property will take place which do not occasion the imposition of betterment levy. For these the scale of a potential charge to capital gains tax may result in a substantial liability so that its possible postponement to the indeterminate future represents a valuable privilege for those engaged in trade. The privilege was originally denied where the trade was one of dealing in or developing land, or of providing services for the occupier of land in which the person carrying on the trade had an estate or interest. However, as regards disposals of premises after April 5th 1968, the privilege is extended to such cases so far as a profit on the sale of any land held for the purposes of that trade would not form part of the trading profits (paragraph 3 of Schedule 12 in the Finance Act 1968).

'Roll-over' relief

The relief given by section 33 of the Finance Act 1965 applies to assets which take the form of fixed plant or machinery which does not form part of a building or of a permanent or semi-permanent structure in the nature of a building. Such a building or structure itself also qualifies if occupied (as well as used) only for the purposes of the trade. These 'old' assets must have been used, and used only, for the purposes of the claimant's trade throughout the period of his ownership and it is contemplated that the consideration from their disposal will be applied in acquiring other 'new' assets (or an interest in them) which on acquisition are taken into use, and used only, for the purpose of the trade.

Nevertheless two trades may be treated as the same trade if carried on successively or at the same time in different localities, provided that they are concerned with goods or services of the same kind. Again, if over the period of ownership or any substantial part of it, part of the building or structure is (and part is not) used for the purposes of a trade, section 33 is to apply as if the part so used, with any land occupied for purposes ancillary to the occupation and use of that part thereof, were a separate asset with consequential apportionments of consideration on acquisition or disposal in such manner as is just and reasonable.

It is also possible that the old assets were not used for the purposes of the trade throughout the period of ownership in which event section 33 applies as if a part of the asset representing its use for the purposes of the trade having regard to the time and extent to which it was (and was not) used for those purposes were a separate asset which had been wholly used in a qualifying manner. In the case of a partnership, bearing in mind the individual incidence of the gains tax, it is required that if the share held in the old and the new asset is not the same for any particular partner, then he may only obtain relief in respect of the lesser share.

Computation of relief

Yet a further condition is that the relief is available only if the acquisition of (or of the interest in) the new assets takes place in the period of twelve months on either side of the date of disposal, with such extension as the Board of Inland Revenue may allow. They have let it be known that this discretion will normally be exercised only if circumstances prove such that it was impossible for the trader to acquire the new asset within the prescribed time limits. The statute permits the entering into of an unconditional contract for the acquisition of an asset to be regarded as equivalent to acquisition, any necessary adjustments being made without time limit when the full facts are ultimately known.

Although the amount of the gain chargeable is computed in the usual manner, it is wholly deferred by being applied in reduction of the base cost of the acquisition if the whole of the proceeds of disposal are thus utilized. In other circumstances the amount not thus utilized is treated as an immediately chargeable gain. In either situation the exemption or partial exemption accorded to assets held on April 6th, 1965, is reflected in the amount of the deferral set against base cost or charged forthwith (paragraph 2 of Schedule 13, Finance Act 1967).

As regards the short-term gains tax charged on individuals under Case VII of Schedule D, section 33 is made to apply by section 17 (9) of the Finance Act 1965. A Case VII charge on the acquisition and disposal of the 'new' assets is only competent if the interval between acquisition of the 'old' and disposal of the 'new' is not more than twelve months.

The Companies Act 1967 in Practice – II

Problems Arising from the Disclosure Provisions

by E. R. NICHOLSON, F.C.A.

Directors' and employees' emoluments

I AM plunging straight into this subject by giving an illustration of one method of giving the information required by the old section 196 as well as by section 6 of the 1967 Act.

Emoluments of directors of the parent company

	Number of directors		*In respect of services as a director*		*Other emoluments*	
	1968	*1967*	*1968*	*1967*	*1968*	*1967*
			£	£	£	£
Chairman			1,500	1,000	28,000	25,000
Highest paid director ..			1,750	1,500	32,000	30,000
Other directors:						
£0–£2,500	1	2	2,750	2,500	50,000	46,000
£2,501–£5,000	3	3				
£5,001–£7,500	6	5				
			6,000	5,000	110,000	101,000
Contributions under pension schemes			—	—	15,000	14,000
Total emoluments £131,000 (1967 £120,000)			£6,000	£5,000	£125,000	£115,000

Apart from a statement of this type the two Acts require either a cumbersome two-stage statement or else two separate notes. It does, however, involve the gratuitous disclosure of:

(i) the division of total emoluments under section 196 (1) (*a*) between pension contributions and other emoluments; and

(ii) the division of some directors' individual emoluments between those received as a director and other emoluments.

It may also be inappropriate where there are directors whose duties lie outside the United Kingdom (see 28 (vi) below).

28. I now append detailed comments:

(i) Section 6 (1) (*b*) does not exclude the chairman or highest-paid executive from the various tranches of directors' remuneration and unless such a person is shown separately followed by the heading 'Other directors' as in the illustration, he needs to be included in the numbers given in the tranches.

(ii) It is not necessary to make negative statements such as 'no emoluments have been waived' or 'there were no employees receiving emoluments of £10,000 or more'.

(iii) For the purposes of the division of the directors into tranches it is necessary to include all the emoluments and benefits-in-kind which are covered by section 196 (1) (*a*) except for pension contributions. An interesting point arises where two joint managing directors appointed on the same terms both receive more than the chairman; one might expect this to lead to the disclosure of both but one would probably find that differences in personal circumstances affecting benefits-in-kind would cause one to be more than the other, so that only the higher would need to be noted (anonymously).

(iv) The company's books do not necessarily have accurate information on matters such as benefits-in-kind and since there is no change in the law which places on the auditor the obligation of filling in such a gap in the accounts (subsection (4)), the auditor still requires some evidence on his file, such as the statements which directors usually sign and submit to a board meeting; such a standard form of declaration should now be extended to cover information as to any remuneration waived.

(v) A minor point may sometimes arise affecting the exemption on emoluments under £7,500 because the Act (in subsection (6) – as in several other places) makes no special provision with regard to a financial period which is more or less than a year. Thus, where the total emoluments are under £7,500 they may lose the exemption if the accounts cover a period of eighteen months, and conversely a six-

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The concluding part of a paper presented at the Oxford Summer Course of The Institute of Chartered Accountants in England and Wales on July 15th.

months' account might extend the scope of the exemption.

(vi) The particulars required in tranches by the 1967 Act do not apply to any of the emoluments received by a chairman or director if their duties as such are discharged wholly or mainly outside the United Kingdom (there was some discussion in Parliament on the words 'as such' and it appears that this is intended to cover, for example, a director who spends most of his time looking after a selling company in America but not a chairman who is also a part-time director of a foreign associated company). There is, however, no such exclusion under section 196 so that the elimination of such emoluments in the first line of the illustration in paragraph 27 would merely throw up a difference which would call for reconciliation in the penultimate line. In such cases, the note form of presentation will presumably be preferred.

(vii) Directors who have only been in office part of the year nevertheless count as one in the numbers; alternate directors presumably do not count.

(viii) So far as concerns employees earning £10,000 or more in the period (section 8), the emoluments to be shown in the case of a parent company include emoluments receivable from subsidiary companies but only where the individuals concerned are also employees of the parent company. The Government representative in debate said that this was an oversight the correction of which would have required twelve amendments which they had not time to make. It means, for example, that an executive of operating subsidiaries earning in aggregate more than £10,000 a year but who is not an employee of the holding company will only need to have his emoluments disclosed in the accounts of any subsidiary from which he receives over £10,000. Let anyone beware before instituting an artificial division of emoluments because there are some perplexing definitions which need not be pursued here. There may be auditing problems in establishing who are employees of the parent company or of obtaining information where certain subsidiaries are audited by other firms. An auditor who believes himself short of information may feel it appropriate to obtain a certificate from a possible employee as to his total emoluments, but the employee is not obliged to comply. Another source of information might be the group secretary who might be asked for a certificate giving names of the employees of the company (other than directors and those who worked wholly or mainly outside the United Kingdom) whose individual emoluments from the group as a whole amounted to £10,000 or more.

(ix) The Act (section 11) specifically calls for comparative figures in the first accounts so that in this case there is a measure of retrospective disclosure; in the accounts, for example, for the year ended March 31st, 1968, it is necessary to show in full the comparative figures for the year to March 1967 and this could call for obtaining further information from former directors. Here there is another oddity: while there is no special penalty for failure to give the information required under section 196 of the 1948 Act, and sections 6, 7 and 8 of the 1967 Act, wilful failure to comply as regards comparative figures may result in imprisonment for six months – this heavy penalty is apparently the result of some Government pledge given in connection with prices and incomes legislation.

Capital and revenue reserves

29. In my opinion, far too much emphasis is being placed upon the fact that it is no longer specified that capital and revenue reserves should be distinguished. In order that accounts may give a true and fair view it is just as necessary now as it ever was to distinguish between reserves arising from undistributed profits and those which are of a capital nature.

30. The old Eighth Schedule definition of a capital reserve turned on whether it was 'free for distribution through the profit and loss account' and the Jenkins Committee found this 'unsatisfactory' owing to uncertainty arising from the *Westburn Sugar Refineries* and *Dimbula Valley Tea* cases. It therefore expressed the view in paragraph 372 'that the existing requirement to show separately capital and revenue reserves should be abolished and that company directors and auditors should be left to classify any reserves under headings appropriate to the circumstances in order to show a true and fair view (for example, according to the sources from which they were derived)'.

31. The 1967 Act has now given effect to this recommendation but still retains the requirement that reserves shall be classified under headings appropriate to the company's business; it follows that it merely gives us more latitude in our classification. It recognizes, for example, the practice of many companies which have classified as capital all reserves of capital origin though they may since have become legally distributable, e.g. by subsequent realization of a revalued asset.

32. Indeed, I think this is an area where accounting practice has often been somewhat slipshod in the past in that reserves of quite different natures have been lumped together in one 'Capital reserve', and I think that our new freedom should encourage us, as Jenkins suggests, to classify reserves under headings appropriate to the circumstances in order to show a true and fair view.

33. Share premium accounts and capital redemption reserve funds still need to be shown separately.

Loans

34. It is a new requirement that loans repayable more than five years after the date of the accounts have, by paragraph 8 (1) (*d*) of the Second Schedule, to be shown under a separate heading together with their repayment terms and rates of interest. The only small difficulty about this is that the Stock Exchange requirement refers to medium- or long-term borrowing. Thus a twenty-year loan which is in the last few years of its tenure should be shown to satisfy the Stock Exchange but is not required by the Companies Act; since it is obviously important that accounts should disclose any major long-term borrowing which is due for early renewal, best practice would require that particulars should be shown if required under either the Companies Act or the Stock Exchange requirements. Additionally, it would seem undesirable presentation that a company's long-term loan should be switched as between one balance sheet and another from 'Loans with more than five years to run' to another heading, perhaps even 'Credi-

tors' simply because it had entered the last five years of the borrowing period. Incidentally, as I read paragraph 12 (1) (*b*) of the Second Schedule, the interest on loans and overdrafts can be shown together with the interest on other short-term borrowings, the main point being that the classification of interest disclosed in the profit and loss account should match the classification of the related indebtedness in the balance sheet. The above-mentioned point of presentation again arises here; one would not expect the interest on debentures to be merged with short-term interest as between one year and the next just because the last five years had been reached.

Fixed assets

35. Matters of presentation will probably loom largest among the difficulties arising from the requirement to show additions and disposals of fixed assets. This is not to deny that there are difficulties of interpretation in the Act, because there are; paragraph 11 (6B) of the Second Schedule, for example, appears to overlook that there should have been some depreciation provided during the year on additions and on disposals. Moreover, the paragraph appears to give no opportunity to offset disposals against additions, however unimportant the disposals may be; the judicious use of the principle of materiality may serve to reduce the complexity of such tables.

36. The old requirement under the Eighth Schedule to show cost and depreciation separately is still in operation although there is no requirement to reconcile the opening and closing figures of either the cost or valuation figures or of the depreciation. Even so, the presentation of these figures in a large and complex organization could entail the preparation of a massive schedule to be attached to the accounts, particularly if the schedule is designed to give the necessary comparative figures as well as the other new information such as particulars of the year of revaluation, the split between freehold, long leasehold and short leasehold, and also the Stock Exchange request for dates of purchase of major items.

Stock

37. In paragraph 11 (8B) of the Second Schedule there is a new requirement to state the manner in which the amount of stock-in-trade or work in progress has been computed, if material for the appreciation of the company's state of affairs or of its profit or loss. 'Stock as certified by the directors' will not suffice as a balance sheet description in future but I do not think the new requirement calls for any additional details by the majority of companies which value their stock and work in progress at cost, including a proper proportion of overheads, or lower net realizable value. It is only in the abnormal case that the basis will need to be explained in detail. For example, a firm of civil engineering contractors, which takes no account of the profit implicit in interim certificates until the final retention moneys have been received, is liable to mislead its shareholders unless the basis is precisely stated in the account. While I am aware that it is suggested in some authoritative quarters that it is necessary to state such details as the type of costing system used, the basis for adding oncost and so on, I think that the legal requirements and the Stock Exchange request for a precise description of the basis, can be reconciled with a concise description.

Capital expenditure authorizations

38. Paragraph 11 (6) of the Second Schedule calls for particulars of capital expenditure authorized by the directors not yet contracted for. This is fair enough in general terms but as a legal requirement I think it worthless. I know of companies with a long-term forward plan of capital expenditure authorized by the board, the execution of which is quite unlikely. In other cases there may be no recorded board authority until long after other events have made heavy expenditure inevitable. This statutory requirement will, it is to be hoped, bring about an improvement in the standard of obtaining and recording board authorities.

Turnover

39. It is now a statutory requirement (paragraph 13A, Second Schedule), except for small non-group companies, to state the turnover in the profit and loss account. The Institute joined in the plea for an increase in the extremely small minimum originally proposed in the Bill, and it was eventually increased to £50,000 which should eliminate many of the small companies. The chief difficulty now is that there is no definition of turnover. Points of difficulty include such matters as inter-group sales, sales of by-products and scrap, trade discounts, purchase tax, c.i.f. sales, consignment sales, hire-purchase, instalment sales, subcontracts, long-term contracts, brokerage sales, joint ventures, etc. A dictionary definition is, 'The amount of money changing hands in a business'. Hitherto I had always thought it desirable to distinguish sales and services, so that, for example, in the case of brokerage sales, one would regard the company's commission as turnover. Recent experience shows, however, that many brokerage businesses embrace dealing on their own account and no clear distinction can be made. On the other hand, the Second Schedule does call for a statement of the method by which the turnover figure is arrived at and in some ways this may be better than a rigid definition might have been, even allowing that it leaves it open to companies to maximize their turnover figures by use of debatable formulas, explained briefly in a remote note.

Rents

40. It is an odd situation that rents receivable, if substantial, are required to be shown (paragraph 12 (1) (*ga*), Second Schedule) whereas there is no such requirement in respect of either:

(*a*) interest receivable (other than investment income); or

(*b*) rents payable (other than for hired plant and equipment).

The Stock Exchange recommend rent payable to be shown, if material, and I think this is best practice which obviates the inconsistency.

Preceding period items

41. It is a recommendation of long standing by the Institute, which was followed by Jenkins, that preceding year revenue items should pass through the profit and loss account and should be separately disclosed, if material. There now appears in paragraph 12A of the Second Schedule a requirement as regards the profit and loss account that preceding period items, if not included elsewhere, should be stated under a separate heading. I am told that paragraph 12A was indeed intended to imple-

ment Jenkins but it obviously fails to achieve anything except state the obvious. I believe the Accountants' Joint Parliamentary Committee are looking into this point and we may have a recommendation from them. Meantime, best practice on this point is well known.

Taxation

42. Paragraph 12 (1) (*c*) of the Second Schedule requires that the profit and loss account shall show the charge to revenue in respect of:

(*a*) corporation tax;

(*b*) corporation tax as it would have been but for double tax relief;

(*c*) United Kingdom income tax;

(*d*) overseas taxation of profits, income and capital gains.

These basic provisions are quite simple and I for one am glad to see the back of the previous requirement (to much the same effect) to include overseas taxation as United Kingdom tax to the extent of the double tax relief. Two particular points, however, call for comment:

(i) It is implicit that any corporation tax chargeable on capital gains would fall to be included in (*a*) so far as the gain was brought into revenue. If, however, the capital gain which was the subject of the charge had been taken direct to capital reserve the corresponding taxation charge should also be charged to capital reserve and should not be shown in the profit and loss account.

(ii) Although there is no requirement to show the relief from double taxation of overseas profits as such, it can be deduced by deducting (*a*) from (*b*). In practice, however, (*b*) may sometimes be thought to be of insufficient interest to appear in the profit and loss account and may accordingly be relegated to a note.

43. At the time this paper is being drafted a new edition of N 19 'Treatment of Taxation in Accounts of Companies' is in an advanced stage of preparation and awaiting approval by the Council of the Institute[1]; and this is not the place to consider in detail the many and complicated aspects where taxation legislation has a bearing on company accounts. There are, however, two aspects where the Companies Act 1967 is concerned, with which I propose to deal:

(i) *United Kingdom income tax*

United Kingdom income tax will not normally fall to be charged to revenue except in the case where there is an excess of franked investment income over distributions, and the most common case of this is investment companies. In such cases the profit and loss account will normally be a hybrid consisting of unfranked income, to which the corporation tax charge will relate, and franked investment income, the latter having borne its charge for corporation tax before receipt. Without grossing the franked income (which would be incorrect, being extraneous to the company) it is practically impossible to set out the accounts so as to show a true figure of profits before taxation, to most of us a *sine qua non*. I fail to find in the Second Schedule any requirement that the profit and loss account shall give the profits before tax (except in reference to the note on unquoted investments). For that matter it does not specify anywhere whether profit is to be stated before or after tax unless it is still valid to say that taxation is an appropriation of profit. There is no difficulty in the case of a normal trading company where the profit before and after tax can be shown, but wherever franked investment income exceeds distributions, the profit after tax is the only figure which can be given without the ambiguity associated with the level of distribution.

(ii) *Deferred taxation*

There are a number of references in the new Second Schedule to taxation including amounts set aside for fluctuations in tax of which I would mention the following:

Paragraph
7A – State in the balance sheet the amount set aside to prevent undue fluctuations in charges for taxation.
11 (8A) – State the amount of any such sum used for another purpose.
11 (10) – State the basis on which the amount set aside (in the balance sheet) for corporation tax is computed.
14 (3) – State the basis upon which the charge (in the profit and loss account) for United Kingdom corporation tax and United Kingdom income tax is computed.
14 (3A) – State any special circumstances which affect liability in respect of taxation of profits, income or capital gains for the year or for succeeding years.
27 (1) (*b*) – In the definition of reserve there is specifically excluded 'any sum set aside for the purpose of its being used to prevent undue fluctuations in charges for taxation'.

44. I hope that by the time I deliver this paper the publication of N 19 will have given Council approval to the concept that it is mandatory in the accounts of companies to show either directly or by way of note the taxation truly attributable to the profits of the period, any special circumstances causing the taxation assessment to be materially different being suitably explained or, preferably, dealt with by the appropriate use of a provision for deferred taxation. Whether or not this is the case it is my submission that the Companies Act 1967 by virtue of the above-mentioned provisions certainly makes it obligatory to state, if only by way of note, any material respects in which the taxation charge has or will in future be affected by:

(*a*) Losses brought forward (the amount of revenue and capital losses carried forward appears to be required to be stated by paragraph 14 (3A) unless so small as to be not material or so large as to be unusable).

(*b*) The difference between capital allowances and depreciation.

(*c*) The difference between depreciation of properties and industrial buildings allowances.

(*d*) Various inter-group taxation adjustments – particularly group relief.

(*e*) Close company aspects such as disallowed directors' emoluments.

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[1] Recommendation N19 has now been issued and was reproduced in *The Accountant* of July 20th, 1967.

(*f*) Provisions not allowable or only allowable as utilized, e.g. long-term contracts, bad debt provisions, unearned hire-purchase interest, sinking funds, back service pension contributions.

(*g*) Assets valued on a formula not accepted by the Revenue, e.g. base stocks or oncost adjustments in stock valuation.

45. The deferred tax account is, however, a convenient method of allowing for the above diverse aspects as well as taxation on capital gains and perhaps even betterment levy. Indeed it is difficult to see how accounts can give a true and fair view without the use of this concept. Such an account falls within the definition of an amount set aside for undue fluctuation in charges for taxation and by virtue of paragraph 27 (1) (*b*) it must not be shown as a reserve – in other words it is a future liability of current relevance incapable of precise calculation.

46. My preference is therefore that the amount of the deferred taxation should be brought specifically into the accounts but one has to admit that the Companies Act is satisfied if it is covered by a note. In formulating best practice in this connection I think that the important thing is to decide whether the charge to taxation when the profit or benefit eventually matures is quite uncertain. It is probably fair to extend this concept to cases where the tax liability may be deferred so far ahead that its discounted present value is so small as not to be significant, and in the meantime the company has the benefit of the use of the related asset.

Directors' report

47. The 1967 Act includes in sections 16–23 a whole series of new requirements for the inclusion in the directors' report of further information some of which is most definitely of an accounting nature. The submissions of the Institute on these sections of the Bill were mainly of three general types:

(1) Some of the information was unnecessary or inappropriate.

(2) The information required was in many cases too vague and needed definition.

(3) Provided the requirement was so clarified, accounting information ought to be given in the accounts rather than the directors' report and consequently subject to the review of the auditors.

These last two aspects were debated in the House when the Government rejected these submissions. The general idea underlying what was said was that directors are expected to take a stand, perhaps as a politician does, on certain matters which they have to make public, that they were allowed considerable latitude as to the form and context in which they would give the information and, moreover, that the auditors – with their devotion to accuracy and meticulous definition – should be given no right to interfere with the directors' discretion.

48. This is relevant background to the current debate as to whether the auditor has any responsibility for the matters which the directors include in their report. In my view, there is no doubt that the auditor has no such responsibility so far as Parliament or the public is concerned but I have important reservations. The first and obvious one is that if a statement in the directors' report is in conflict with information given in the accounts (for example, if the analysis of turnover did not agree with the turnover figure in the profit and loss account) he would clearly have to inquire into it.

49. This leads to another important reservation, namely, that an auditor should, in my opinion, insist on seeing a copy of the directors' report before completing his audit. There may be points in the report which affect the accounts and if any of the information given in the report is in conflict with the accounts or with the facts as he understands them, he should bring this to the attention of the directors so as to rectify any mistake or misunderstanding on the part of either the directors or auditors before it is too late. In default the auditor may find it appropriate to put his views in writing to the board.

50. In most small companies and many of the larger companies that part of the directors' report (or hitherto the chairman's statement) which deals with the accounts is approved by and sometimes even drafted by the auditors. This will undoubtedly be increasingly the case with the additional accounting requirements in sections 17, 18, 19 and 20 of the 1967 Act, and with unquoted companies faced with such intricate responsibilities for the first time. In so doing, the auditors will be assuming responsibility, at least to the company if not to the public, for that part of the directors' report although not perhaps in their capacity as auditors. Moreover, in the case of private companies it is inevitable that where in the past auditors as part of their service to their clients have prepared for the directors a set of accounts, the annual return, directors' minutes and so on, they will in future also prepare in draft the directors' report.

51. For these reasons I make no apology for dealing in some detail with problems arising from some of the accounting requirements of the directors' report:

(*a*) *Group fixed assets*

Section 16 under the heading of 'Matters of a general nature' requires particulars of significant changes in the group fixed assets and of any substantial difference between the market value and the book value of land (which includes the buildings thereon), if the difference is of such significance as to require the attention of the shareholders or debenture-holders to be drawn thereto. I would draw attention to the use of the word 'significant' rather than the word 'material' and to the fact that the difference need only be indicated with such degree of precision as is practicable. This follows a suggestion made by the Institute in their recommendations on the Bill and we certainly had in mind instances where professional estimates of market value had varied remarkably between one expert and another. In other words, we thought that information on these lines would only be useful to shareholders if the value of the land and buildings was known to be much greater or less than the book value – particularly if put to some other use. Since the Bill became law, however, I have encountered cases where a factory built on fringe land forty or fifty years ago has now become inbuilt and is admittedly worth in the open market many times its original cost. However, if the company were to sell the factory and move its profitable going concern some miles further out, the immense cost of rebuilding, the cost of removal and the inevitable dislocation would swamp the capital profit on the sale of the present site. One can hardly criticize the directors for deciding that the existence of the 'paper' surplus would not be of such significance as to require them to draw the attention of the shareholders to it. If they do they ought also to mention the capital gains tax implications and, where applicable, betterment levy. My recent experience has accordingly strengthened my view that this requirement will serve no useful purpose except where there is an advantageous alternative use, or where the business can be moved without detriment, or where the business is not sufficiently profitable. These are matters for the directors' judgement and they may be subject to criticism later if they prove to be wrong.

(*b*) *Analysis of turnover and profits before tax*
The turnover and profits before tax need to be analysed between differing classes of business (for groups on a group basis), subject to an exemption for small single companies. The directors are left wide discretion in deciding what are differing classes of business and I imagine we shall find that this will normally be established on a broad basis. The Stock Exchange recommends quoted companies to give a split on a products basis, on a geographical basis and also between sales and services. Presumably, best practice for quoted companies will require an attempt to be made to comply with all these. Manifold difficulties will undoubtedly emerge in the preparation of these analyses especially in the case of profit on inter-group transactions. In the ordinary case it should be possible to produce a reasonably informative statement but any special terminology and any arbitrary basis of allocation will need explaining. In many cases it will be quite impossible to arrive at a single figure of profits of one class of business without using some sort of allocation formula or important qualification and this should be explained. The responsibility for this rests with the directors and even if the auditors believe that the basis is misleading they will be powerless to publicize their views.

(*c*) *Value of goods exported*
Subject to certain exemptions in favour of smaller companies the directors' report must give information as to the value of goods exported by the company from the United Kingdom. This implicitly excludes indirect exports but there is no further definition. Companies will presumably wish to show this figure as high as can be justified and might, for example, wrongly include indirect exports. However, the position must be that any reasonable basis is permissible so long as it is properly stated.

Conclusion

52. The Act contains a 'sweeping up' requirement to the effect that the directors' report must state any other matter so far as it is material for the appreciation of the state of the company's affairs by its members. This accords with what I want to say in conclusion regarding both the accounts and the directors' report. With the very considerable increase in the detailed requirements for accounting and other information there is a danger that the true and fair view which accounts should give will be overwhelmed in a mass of detail unless we have proper regard to the important principle of 'materiality'. It will help if the basic balance sheet and profit and loss account with the essential notes thereto are kept clear from all the other ancillary information required by the Companies Acts. Above all, however, our dedication is not so much to compliance with a set of rules, with inevitable ambiguities and alternatives, but rather to a reliable and informative portrayal of a company's financial affairs. If we succeed in giving a true and fair view in the accounts coming under our review we need have no fear of immaterial technicalities.

POSTSCRIPT

In the light of the discussion of his paper, Mr Nicholson offers the following additional comments on two aspects of it.

Paragraph 51 (a) – group fixed assets

It is also important that the reference to a substantial difference is qualified by the phrase 'of such significance as to require that the attention of members . . . or of holders of debentures . . . should be drawn thereto'. The significance of the difference will not necessarily be the same for both these groups of persons. The phrase probably does not refer to the identity of the persons in a particular case and it therefore does not appear to exclude members (or debenture-holders) who are already aware of the facts, such as the parent company of a wholly-owned subsidiary or members of companies, all of whom are also directors; the word 'members' is presumably used in the more generic sense of meaning 'members whoever they are'. On the other hand, the phrase appears to exonerate the case where the knowledge of the undisclosed asset value would have no significant effect on the view given by the accounts of the value of the business. The most obvious application of this principle is where the going concern value of the business with its necessary buildings is such as to swamp any excess value of those buildings. The members could not realize that excess without destroying the much greater going concern value. Admittedly it could follow from this that if profits fall and the going concern value declines, the excess value could become more significant and in that case the members' attention should perhaps be drawn to it. So far as debenture-holders are concerned, it seems that what has to be considered is the significance of an under or over valuation of properties in relation to the nature and extent of the debenture charge.

One legal textbook has suggested that 'significant' means something which is of some importance, though not necessarily of major or decisive importance; whether this is too wide or too narrow, the word certainly has a wider meaning than most accountants would give to 'material'.

Paragraphs 21 to 25 – unquoted investments in equity share capital

Experience to date indicates that on balance directors are preferring to give some sort of valuation rather than face up to the technical difficulties of complying with paragraph 5A of the Second Schedule. These valuations are based in some cases on an arbitrary calculation such as the application of a yield factor to dividends received (the basis being stated) whereas a proper valuation ought also to have regard to the level of the attributable underlying earnings and, perhaps, net tangible assets. There are instances of the directors admitting their inability to arrive at a fair market value and saying that, in order to comply with the Act, they have adopted some specified basis. I question whether the adoption of a valuation by the directors which they concede is not a proper valuation, absolves them from giving the alternative information required by paragraph 5A, which should enable a reader to make up his own mind.

Accounts of Investment Trust Companies

The Council of The Institute of Chartered Accountants in England and Wales has issued the following recommendations on the treatment of investments in the accounts of investment trust companies. It is hoped that they will be helpful to members in deciding, and in advising in appropriate cases, as to what is regarded as best practice. The recommendations do not apply to companies dealing in investments.

References to 'capital gains tax' in paragraphs 8 to 16 of this recommendation are to corporation tax on chargeable gains, the rate of which in the case of investment trust companies approved under section 37 of the Finance Act 1965 is limited to the rate of capital gains tax payable by an individual.

Unless otherwise stated references are to Schedule 2 to the Companies Act 1967, being the form of Schedule 8 to the Companies Act 1948 as amended by Schedule 1 to the Companies Act 1967.

THE treatment of investments in the balance sheets of investment trust companies varies considerably; the methods at present adopted may be conveniently grouped under the following headings:

(*a*) Cost, each holding being treated as a separate asset.

(*b*) Cost less all net surpluses on investments realized; this treatment implies the concept that the whole portfolio is one asset.

(*c*) Market value (including the value as estimated by the directors in the case of investments for which there are no quotations), any resulting net surplus or deficiency being transferred to or from reserves.

2. Investments held by investment trust companies have the nature of fixed assets and it is appropriate for them to be stated at cost. Likewise if the investments have been revalued at some past date it is appropriate to state those investments at that valuation with subsequent purchases at cost.

3. Where the shares comprising one holding have been acquired over a long period the use of cost (or valuation at a past date) as a basis may, however, have little significance. Such a basis will have even less significance where profits on realization have been deducted from the cost of the remainder of the portfolio or where an unspecified amount has been written off cost in arriving at the amounts stated in the balance sheet.

4. Under paragraph 11 (8) of Schedule 2 there must be stated, by way of note or in a statement or report annexed, if not otherwise shown the aggregate market value of quoted investments.

5. Market value at a particular date has the advantage that it is capable of reasonably precise definition (although it is not necessarily the value at which the investments could be realized) and is more relevant for use when calculating the asset value per share and measuring income yield. Investments may therefore appropriately be stated in the accounts of investment trust companies at market value as an alternative to their being stated at cost or revaluation with their market value stated merely as a note.

6. Paragraph 5A of Schedule 2 requires certain information to be given in respect of unquoted investments consisting of equity share capital, if the value as estimated by the directors is not shown elsewhere. For this purpose the definition of equity share capital is that in subsection 154 (5) of the Companies Act 1948. The value may be shown either by stating the investments in the accounts at the value or by way of note.

7. If investments are stated in the balance sheet at market value and this is greater than cost, it will be necessary, subject to the taxation considerations relating to capital gains set out in paragraph 14 below, to credit the difference to reserve. On the other hand, if the value is less than cost, the resultant deficit should be shown as a deduction from the issued share capital and reserves. Subject to any other treatment arising out of taxation considerations (see paragraph 14 below) the distinction between realized and unrealized appreciation appears to be of insufficient significance to justify separate disclosure in the balance sheet.

8. If a capital surplus arises from a revaluation incorporated in the accounts (either at current market values or otherwise) the surplus will normally be dealt with in the accounts by credit to a reserve. When the investments are eventually disposed of there may be a liability to capital gains tax, and to the extent that the chargeable gain is a reflection of the surplus created by the revaluation, the tax should be regarded primarily as a charge against the reserve to which the surplus was taken. Alternatively, part of the surplus may be appropriated specifically for this purpose before it is taken to reserve. In any event the existence of the potential liability needs to be recognized.

9. The estimation of notional chargeable gains may prove to be burdensome where a large number of investments is concerned. Nevertheless, it is considered that the effort should be made to arrive at, at least a fair approximation of the potential liability involved, however remote in time the

prospect of incurring it may be considered, in order that the accounts should show a true and fair view. In comparing two companies in apparently similar financial positions, it would be a material factor to be taken into consideration if one of them had a substantial potential liability to tax on chargeable gains while the other had little or none. Even if the company is approved as an 'investment trust' under section 37 of the Finance Act 1965, thus enabling an ordinary shareholder to reduce his own liability to capital gains tax by reference to that suffered by the company, the factor may be material to the consideration of the company's own position.

RECOMMENDATIONS

Balance sheet

10. Investments held by investment trust companies should be regarded as fixed assets. They should preferably be stated in the balance sheet at either:

(*a*) Cost (or revaluation at a past date) with a note of the market value; or

(*b*) Market value (including the value as estimated by the directors in the case of unquoted investments).

11. For the purpose of calculating the market value of quoted investments it is appropriate to take middle market price but in any event the basis used should be defined.

12. Paragraph 8 (3) of Schedule 2 requires that quoted investments shall distinguish between those quoted on a recognized Stock Exchange and those quoted elsewhere. Furthermore, the investments must be stated in a way that enables the accounts to show a true and fair view. In this context, notwithstanding that many overseas quoted investments are also quoted on United Kingdom Stock Exchanges, the distinction for the purpose of paragraph 8 (3) of Schedule 2 should be made according to the location of the principal market for the shares.

13. If a capital surplus is realized which gives rise to a chargeable gain, the capital gains tax thereon should be charged to the account to which the surplus itself is credited.

14. When investments are written up in the accounts on a revaluation (at current market value or otherwise) an estimate should be made of the tax on any chargeable gain which would have arisen on a simultaneous sale of the assets at the amount at which they are stated. The estimated amount of this potential liability should either be (*a*) charged against the surplus on revaluation and credited to a deferred taxation account or (*b*) shown by way of note and continue to be so shown. There may be circumstances in which the former treatment is the more appropriate. If the latter treatment is adopted, it should be made clear that no provision has been made in the accounts for such potential liability.

15. Where investments are stated in the balance sheet at cost, with a note of market value, the note should include an estimate of any capital gains tax which would have arisen if all the investments had been disposed of simultaneously at the values noted.

16. There should be a note on the accounts stating whether or not the company is approved as an 'investment trust' under section 37 of the Finance Act 1965. If it is so approved it would be appropriate for the note to mention, in connection with any entry or note made in accordance with paragraphs 14 or 15 above, that the holders of ordinary shares at the appropriate time after the realization of gains by the company would be personally entitled to relief from capital gains tax on the subsequent disposal of their shares (see section 67, Finance Act 1965).

17. With effect from April 7th, 1965, the premium on investment currency has not been recoverable on that part of any sale proceeds which must be surrendered to the Bank of England (currently 25 per cent) at the official rate of exchange. Any revaluation of such investments, whether written into the balance sheet or stated by way of note, should take account of the whole of the premium, and this basis should be stated. The potential loss on realization represented by the fraction of the premium which is liable to surrender is for accounting purposes similar in nature to capital gains tax arising on a disposal, and procedures in line with those recommended in paragraphs 14 and 15 above should be followed, with necessary adaptations in wording. The estimate of capital gains tax for the purpose of paragraphs 14 and 15 above should then be based on the net value of the investments concerned, after deducting the part of the currency premium which is liable to surrender.

Revenue account

18. In order to present a true and fair view and to comply with the requirements of Schedule 2 the following items should be shown separately in the revenue accounts:

(*a*) income from (i) quoted investments and (ii) unquoted investments including, in the case of income from overseas investments, the amount before overseas withholding taxes but after all overseas indirect taxes. The amount of franked investment income comprised in the total, gross of income tax, should be disclosed by way of note or otherwise;

(*b*) interest received from sources other than investments, e.g. bank deposit interest;

(*c*) other income, e.g. underwriting commission (where the company is obliged to take up shares, through the issue being under-subscribed, it is normal for the commission received to be deducted from the cost of the shares);

(*d*) expenses of management distinguishing between directors' emoluments and other expenses;

(*e*) interest payable (i) on short-term loans and to bankers, and (ii) on long-term loans and on debentures;

(*f*) taxation based on revenue brought into account, stating:

  (i) the amount of United Kingdom corporation tax, *from which should be deducted:*

  (ii) the relief for overseas taxation *leaving:*

  (iii) the amount of United Kingdom corporation tax after overseas taxation relief, *to which should be added:*

  (iv) the amount of overseas taxation *and*

  (v) income tax on any surplus of franked investment income, as reduced by any relief for management expenses, charges on income, etc.

Taxation Cases

Full reports of the cases summarized in these columns will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'

Rodwell Securities Ltd *v.* C.I.R.

In the High Court of Justice (Chancery Division)

November 20th, 1967

(Before Mr Justice PENNYCUICK)

Stamp duty – Group of companies – Transfer by subsidiary to wholly-owned sub-subsidiary of parent company – Whether parent company had beneficial ownership – Whether transfer exempt on that account – Finance Act 1930, section 42.

Rodwell London and Provincial Properties Limited (the London company) had at the relevant date two wholly-owned subsidiaries, one of which was Rodwell Group Limited (the Group company) and the other Sun Real Estates Limited (the Sun company). The appellant company was a wholly-owned subsidiary of the Group company.

On December 19th, 1963, the Sun company executed a transfer of a piece of real estate in favour of the Securities company and in consideration of £29,320. The Inland Revenue claimed that the transfer was fully stampable as a conveyance or transfer on sale. The appellant company contended that the transfer was exempt under section 42 of the Finance Act 1930 in that the London company was the beneficial owner of all the shares in the appellant company.

Held: the shares in the appellant company were not in the beneficial ownership of either the London company or of its subsidiary, the Sun company; and accordingly the exemption from stamp duty given under section 42 of the Finance Act 1930 was not available.

In Re De Lisle

In the High Court of Justice (Chancery Division)

December 5th, 1967

(Before Mr Justice PENNYCUICK)

Estate duty – Valuation – Option to take house at probate valuation – Whether value accepted for probate grant or value agreed for estate duty – Finance Act 1894, section 8 (3).

The testatrix bequeathed £3,000 to her nephew, and directed that, should he express his desire in writing within two months after her death, her trustees were to transfer to him, in part satisfaction of the legacy, her house 'at the valuation agreed for probate'. The nephew duly expressed his desire to have the house, which was valued by a firm of estate agents for the Inland Revenue affidavit at £4,750. As finally agreed with the Estate Duty office, the value was £6,000. The residuary legatee was a great-nephew of the testatrix.

The nephew took out a summons to determine (*a*) whether he was bound to pay to the trustees the excess of the value of the house over £3,000, (*b*) whether the 'valuation agreed for probate' was the £4,750 or the £6,000.

Held: (1) the value to be adopted was the £6,000, as that was the value that had been agreed; (2) the nephew was liable to pay the excess value over £3,000 to the trustees.

C. Maurice Company Limited *v.* Minister of Labour

In the Court of Appeal – May 21st, 1968

(Before the MASTER OF THE ROLLS (Lord DENNING), Lord Justice DIPLOCK and Lord Justice SACHS)

Selective employment tax – Refund – Laying and reinforcing cables – Whether distribution – Whether construction – Selective Employment Payments Act 1966, sections 2, 3, 10 – Standard Industrial Classification, minimum list headings 500, 602.

The company had two establishments, at which work consisting largely of the laying and reinforcing of cables was carried on. The company also replaced and repaired cables, but repair work was comparatively small.

The company claimed refund of selective employment tax under section 2 of the Selective Employment Payments Act 1966, on the ground that its work was for the most part distribution within minimum list heading 602. The Minister contended that the company's activities consisted of providing the means of distribution, and not distribution itself; that they came under heading 500; and so did not qualify for refund. The Industrial Tribunal decided in favour of the company.

Held (reversing the decision of the Queen's Bench Division, Lord Justice Diplock dissenting): the Industrial Tribunal's decision was correct.

C.I.R. *v.* Barclay, Curle & Co Ltd

In the Court of Session

June 21st, 1968

(Before the Lord President (Lord CLYDE), Lord GUTHRIE and Lord MIGDALE)

Income tax – Capital allowance – Machinery or plant – Initial allowance – Construction of dry dock – Whether plant – Whether cost of excavating qualifies – Income Tax Act 1952, sections 265, 276 and 279 – Finance Act 1956, section 16.

The company incurred capital expenditure on the construction of a new dry dock at Elderslie. Land had to be excavated in order to form the dock, and the walls were constructed of concrete. There were pumps and machinery for the purpose of freeing the dock from water, of holding the ship securely while under repair and of filling the dock with water again.

The company claimed that the whole dock was plant within section 279 of the Income Tax Act 1952, and thus qualified for the initial allowance given by that section for machinery and plant. The Inland Revenue contended that the dock was not plant, but was a building in which plant was housed; and that, alternatively, the cost of excavating the land to take the dock was not a qualifying expense.

The Special Commissioners decided that the whole dock was plant but that the excavation expenditure did not qualify for the allowance.

Held: the dock as a whole was plant for this purpose; and the expense incurred on excavation was a part of the total qualifying expenditure.

Esso Petroleum Company Limited *v.* Minister of Labour

In the Court of Appeal – July 2nd, 1968

(Before THE MASTER OF THE ROLLS (Lord DENNING), Lord Justice DIPLOCK and Lord Justice SACHS)

Selective employment tax – Refund – Petrol depot at airport – Whether part of activity of airport – Whether sale of goods – Selective Employment Payments Act 1966, sections 2, 10, minimum list heading 706.

The company has a petrol depot on land leased for twenty-one years and within the boundary of Manchester Airport. The depot is concerned with the storing of petrol and with distributing it to aircraft. There is a series of pipes from the depot to hydrants at each loading bay at which aircraft draw up. At each hydrant the oil is pumped from the pipes into the aircraft by vehicles from the depot. The airport could not function without refuelling facilities. There were twenty-five employees in the depot, and sixteen were engaged in refuelling.

It was contended for the company that the activity carried on at the depot was an integral part of the activity of operating an airport, and, accordingly, qualified under minimum list heading 706. The Industrial Tribunal decided that the depot was merely carrying on a service for those operating the airport, and that the activity was a non-qualifying one.

Held (affirming the judgment of the Queen's Bench Division): the decision of the Industrial Tribunal was correct.

Turner & Newall Ltd *v.* Minister of Labour

In the High Court of Justice (Queen's Bench Division)

July 9th, 1968

(Before THE LORD CHIEF JUSTICE (Lord PARKER OF WADDINGTON), Mr Justice MELFORD STEVENSON and Mr Justice BRIDGE)

Selective employment tax – One establishment qualifying, the other not – Transport establishment working mainly for latter – Whether transport establishment thus qualifies – Whether it qualifies as road transport undertaking generally – Selective Employment Payments Act 1966, section 2 (3) (a) (c) – Minimum list headings 702, 703, 709.

The company had three establishments, one of which was the office, the second a scientific research establishment, and the third an establishment for transporting personnel of the company. The last-mentioned worked mainly for the office establishment which was not a qualifying one. It was conceded that therefore the transport establishment could not qualify as operating road transport for the purposes of an associated qualifying establishment within section 2 (3) (*c*) of the Act.

It was contended for the company that the transport establishment qualified as a general road transport undertaking within minimum list heading 702, and therefore qualified under section 2 (3) (*a*). It was contended for the Minister that that heading was restricted by section 2 (3) (*c*) to transport activities for the purposes of an associated qualifying establishment. The Industrial Tribunal decided in favour of the Minister.

Held: the Tribunal's decision was correct.

Korner *v.* C.I.R.

In the Court of Session

July 5th, 1968

(Before the Lord President (Lord CLYDE), Lord GUTHRIE and Lord MIGDALE)

Income tax – Farming – Family partnership – Father and mother living in farm-house – Two rooms used for farm business – Whether farm-house was farm land – Whether cost of maintaining farm-house deductible – Income Tax Act 1952, sections 124 (1), 137 (b) (c), 313, 526.

The appellant taxpayers, a family, jointly owned an agricultural estate of about 1,817 acres, 1,768 of which were farm land. The estate was divided into five farms, one of which was let and four of which were occupied by the appellants for farming. There was a house on each of the unlet farms, occupied by a foreman employed by the appellants. During the relevant period the two parents lived in another farm-house, and the father managed the farming business on behalf of the family. They employed a factor to supervise the day-to-day work on the farms, but the father had overall control, and kept the statistical and financial records. His management activities required him to reside in the house in question in order to carry on his work. He usually spent only one hour a day on farm business although occasionally up to five or six hours. He used one of the rooms for book-keeping and another room for interviewing callers on farm business. The house was fully furnished, and was the home of the father and mother, and their children and grandchildren occasionally stayed there on holidays.

It was accepted that the house was the farm-house within the meaning of section 526 (1) of the Income Tax Act 1952.

The taxpayers contended that the whole of the rates, repairs, maintenance and insurance incurred in respect of the house in question formed a proper deduction in computing their farming profits for tax purposes. It was contended on behalf of the Revenue that nine-tenths of the expenditure in question should be disallowed, in that to that extent the expenditure was not for the purpose of the farming business, but for personal purposes. The Special Commissioners decided in favour of the Revenue.

Held: as the house in question was the farm-house, it was within the definition of 'farm land' in section 526 (1) of the Act; and the whole of the expenditure was deductible in computing the farming profits.

British-Borneo Petroleum Syndicate Ltd *v.* Cropper

In the High Court of Justice (Chancery Division)

July 22nd, 1968

(Before Mr Justice PLOWMAN)

Income tax – Oil prospecting – Concession sold for perpetual royalty – Thereafter a share-dealer – Surrender of royalty for lump sum – Whether lump sum assessable – Companies Act 1948, Schedule VIII, paragraph 4 – Income Tax Act 1952, section 123 (Schedule D, Case I).

The appellant company was incorporated in 1912 as an oil prospector, and acquired the oil concessions of another company for shares. Among the concessions was one in Brunei. For the next ten years the company engaged in oil prospecting, and spent about £45,000 on that concession. In 1922 it sold the concession to Shell Petroleum Co Ltd in consideration of a perpetual royalty of 1*s* per ton of crude oil produced by Shell in Brunei.

The royalty agreement bound the appellant company to use its best endeavours to assist Shell to obtain further concessions in Brunei, and not to be itself engaged in oil operations there, except as the holder of debentures, stock or shares in the Shell group, and not to assist anyone else in dealing with oil derived from Brunei. From 1922 to 1934 the Shell group produced no oil in Brunei, and the appellant company wrote down its Brunei asset from £45,000 to £10.

After 1922 the appellant company ceased to prospect for oil and began the business of a share-dealer, and made an addition to its memorandum of association to authorize it to do so. Apart from the royalty agreement with Shell the company did not thereafter own any concessions or mining rights anywhere. In 1935 the first royalties were received under the Shell agreement, and they continued to be received except during the war. In the ten years to 1964 the royalties averaged over £250,000 a year. In 1964, as the result of pressure from Shell, the company surrendered its rights under the royalty agreement for £900,000.

The directors of the appellant company caused a large part of the royalties to be invested in stocks and shares with growth possibilities; they looked upon the agreement as having become a permanent income-producing asset; and pursuant to paragraph 4 of Schedule VIII to the Companies Act 1948, the company's assets were separated into fixed and current assets, and the sum representing the agreement was shown as the one fixed asset.

It was contended for the Revenue that the royalty agreement was trading stock of the appellant company; and that the £900,000 was a taxable receipt. It was contended for the company that the agreement was never a part of its trading stock; and, alternatively, that, if the agreement was at one time trading stock, it had ceased to be such an asset long before 1964, and had become a fixed asset. The Special Commissioners decided that the agreement had continued to be trading stock all along; and that the £900,000 was a trading receipt.

Held: at some point of time long before 1964 the appellant company had appropriated the agreement as a fixed capital asset; and that therefore the £900,000 was not assessable.

FOR STUDENTS

Statistical Sampling and Error Estimation in Auditing

SATISFACTORY tests of accounting transactions by testing samples may be made by an auditor only where the system of internal control and internal check is adequate for him to be able to rely thereon.

Statistical sampling involves the examination of a population through the selection of a relatively small sample, the method of selection being based on sound mathematical principles. The term 'population' is used to indicate the total number of items forming the subject under investigation. In sampling inspection one of the main ideas is the economy of effort expended on detailed testing, and a great deal of attention has been paid to the problem of achieving such economy.

Judgement sampling

Where judgement sampling is employed – i.e. the selection of items to be tested being determined through the use of the auditors' own judgement – the tests tend to involve larger samples than those selected by statistical means. Since there is no scientific basis behind judgement sampling, errors in the sample cannot be used as a basis for the correction of figures for the total population.

For any tests to be satisfactory, the population to be examined by means of sampling tests must first be surveyed to ensure that there is no built-in bias in the population which will adversely affect the validity of the tests to be made. If the test is to be made on purchase invoices, the fact that a small number of very high value invoices are contained in the general population is a bias which must be taken into account in designing the appropriate test.

For the sample to be representative, every item in the population being tested must have an equal chance of being selected for testing. For this reason the selection of a number of vouchers from one particular end of a pile is unsatisfactory as it does not give the general population a chance of being tested. The selection of items of high value only will also lead to an unfair test as it affords no indication as to the accuracy of low-value items.

Statistical sampling

To avoid arriving at an unfair result the following principles should be brought into effect:

(1) Personal bias should not be allowed to affect the selection of samples.

(2) Opinions should only be based on the populations from which samples have been taken, e.g. a sample physical test on raw stocks will not give results which can be applied to a different population such as finished stocks.

Statistical sampling, which incorporates these principles, is based on the rules of the theory of probability and has the following advantages:

(1) It provides an estimate of the degree of probability that the sample is representative of the whole popula-

tion. This cannot be provided by means of judgement sampling.

(2) The size of the sample required can be estimated accurately on a scientific basis which enables the auditor to justify the number of items selected.

(3) The sample is usually smaller than one selected by traditional means.

(4) The use of statistical methods of sampling enables the auditor to predict the total number of errors in a population from errors found in a sample. A useful application of this principle is found in the field of inventory and work in progress testing.

The first step to be taken by the auditor after examination of the population being tested for any built-in bias, is to decide on the 'confidence level' he wishes to employ. The confidence level is the degree of probability that the sample results will represent the true condition of the whole population under examination. In sampling, 100 per cent assurance is not feasible and the auditor will usually decide on a confidence level of between 90 and 99 per cent. At the same time the degree of precision required from the sample must be decided. This is a range (ordinarily expressed as *plus* or *minus* a given number of percentage points) within which the true answer concerning the population characteristic under study (errors, for example) should fall, at a specified confidence level. Thus, if we speak of a confidence level of 95 per cent while the precision associated with the sample is *plus* or *minus* 2 per cent, then the potential error rate existing in the population may be as low as 3 per cent or as high as 7 per cent.

The auditor must realize that no sampling plan can ensure detection of all errors in the population or finding the one fraudulent item among hundreds of others. Sampling methods appropriate to his requirements can only provide him with the mathematical probabilities that the sample selected is representative of the population.

The sample sizes which are required to give results with the desired degrees of confidence level and precision can be computed using complicated mathematical formulae. However, sampling tables that eliminate the need for most of the computations have been constructed. Having determined the population size, the expected error rate, the confidence level and the precision required, the auditor can then consult the appropriate tables and establish the size of sample appropriate thereto.

Selection techniques

There are a number of different techniques for selecting the individual items in a sample. Each of these techniques is designed for use in particular types of situation. The more common methods for selecting the items in the sample are:

(1) *Interval sampling*, also known as systematic sampling which involves selecting a random starting point and thereafter making selections so that there is a fixed interval between the items selected. If the size of sample requires that every sixtieth item needs to be selected then the starting point could be selected quite simply by the auditor glancing at the second hand of his watch. If the number selected is forty-seven the first item to be tested would be the forty-seventh, and the examination would thereafter be concentrated on the 107th, 167th item and so on.

(2) *Random sampling*, the auditor taking the numbers to be selected from random number tables, which are constructed to identify the items to be examined in a random test, provided the items in the population are suitably numbered sequentially.

(3) *Stratified sampling* involves the division of the population under examination into layers or strata, each stratum being the subject of a separate test which could be conducted by interval or random sampling methods. This type of selection technique is appropriate where the population consists of a wide range of values among the items under examination. Under such circumstances the entire population being tested would be split into a number of layers each covering a specific range of values or prices and each layer would then be the subject of a separate test.

(4) *Cluster sampling*, which is suitable when the data to be examined are stored in such a manner, e.g. in filing cabinet drawers, that the selection of a group or cluster would be an appropriate test. In these circumstances each drawer could be allocated a number, the particular drawer to be tested being selected by the use of random tables. The contents of the drawers selected could in turn be tested completely or by random number or interval sampling.

Use of computer

The auditor may use a computer to render considerable assistance in the performance of statistical sampling tests, using the following methods:

(i) *Interval sampling*. The computer is programmed to select every *n*th item stored on magnetic tape, and the items so selected can be copied on to a separate tape and printed out in the form required by the auditor.

(ii) *Random number selection*. The technique of random number selection can be used, the random numbers being stored on tape or created separately for each application.

(iii) *Random interval selection*. The dangers of selecting a biased example by the use of a uniform interval can be avoided through the use of random variation of the interval between succession items. Random intervals are selected from random number tables maintained on magnetic tape or produced by means of a random number generator program.

The application of the use of error-estimation in connection with statistical sampling arises in the physical testing of inventories and work in progress. The error to be tolerated in the sample must be decided by the auditor before the test is commenced. Where the tests reveal a difference in the sample between physical quantities and book values, in excess of the tolerable error, the difference may be used by the auditor to produce a correction factor which can be applied to the whole population covered by that specific test. The error found in the sample test is accordingly used to correct the book value of that portion of the inventory which was found to be in error. Furthermore, statistical sampling techniques used in this connection minimize the disruptive effect of inventory tests on the client's business where a complete inventory test would cause a stoppage in production or sales, which in certain circumstances could be harmful to the client's trade.

A detailed contributed article on the use of statistical sampling in stock control and valuation will appear in an early issue—Editor.

National Insurance, SET and Articled Clerks

The following statement issued by the Council of The Institute of Chartered Accountants in England and Wales forms part of the proceedings of the Council reported elsewhere in this issue.

FOR legislative purposes an articled clerk is an employee. If an articled clerk is in regular receipt of some form of remuneration in cash or in kind then he is 'gainfully occupied' and a Class 1 National Insurance contribution, together with selective employment tax, will be payable in respect of the clerk for periods during which such remuneration is paid. If in any period of absence for study purposes an articled clerk receives no pay or remuneration in kind then, provided the articles declare that no remuneration is to be paid for periods of study leave, there will be no selective employment tax payable for the period and the National Insurance will be limited to the employer's and employee's Industrial Injuries Contributions, both payable by the principal. When the national insurance card is due for exchange it should be returned with a certificate from the principal of the period of unpaid study leave.

2. Standard articles include an optional covenant by the principal to pay the articled clerk during study leave. The parties may wish to make alternative financial arrangements to mitigate the employer's liability for national insurance and selective employment tax whilst paying regard to the interests of the articled clerk. This not only involves considering the national insurance status of the articled clerk to which reference is made in paragraph 3 of this statement but also increasing remuneration during working periods to compensate for the absence of pay during periods of study leave.

(*a*) Where such articles are already in force, a formal endorsement under seal should be executed. A specimen text is given below. The endorsement does not require registration by the Institute.

(*b*) Where articles are about to be signed, the optional covenant should be deleted and the schedule should include a declaration that the clerk will not receive remuneration during periods of study leave spent in accordance with the terms of (*c*), (*d*) and (*e*) of clause 3 (iv) of the articles.

3. An articled clerk aged 18 or over would receive no credit for the missing Class 1 contributions. This could prejudice entitlement to benefit at some later stage and has to be borne in mind. The articled clerk may voluntarily pay contributions for the periods as if he were a non-employed person (Class III). He may do this at the time, stamping a separate card obtained from the Ministry of Social Security. Alternatively, he may pay later within approximately six years of the completion of articles. The local Ministry office will advise on request. A booklet *Social Security for Students* (National Union of Students, 3 Endsleigh Street, London WC1, price 1*s* including postage) shows the effect on benefits where Class 1 contributions are not paid during periods of study leave and the extent to which payments of Class III contributions may assist the student to obtain full benefit. Leaflet N.I. 30, obtainable from any local office of the Ministry of Social Security, also explains the position of students in National Insurance.

Specimen Form of Endorsement

THIS DEED is made this day of One thousand nine hundred and sixty BETWEEN Chartered Accountant of the first part of the second part and of the third part and is supplemental to Articles of Clerkship dated the day of 19 and made between the same parties as are parties hereto.

WHEREBY IT IS AGREED as follows:

1. Notwithstanding the provisions of clause 3 (v) of the said Articles of Clerkship no remuneration shall be paid to the articled clerk in respect of any period spent by the articled clerk on study leave in accordance with the terms of (*c*), (*d*) and (*e*) of clause 3 (iv) of the said Articles of Clerkship.

2. Subject to the amendment set out in the preceding clause the terms of the said Articles of Clerkship are hereby confirmed to be of full force and effect.

IN WITNESS whereof the parties have hereunto set their hands and seals the day and year above written.

SIGNED by the said
(Principal) } L.S.
in the presence of:
**Witness*
Signature
Address

SIGNED by the said
(Covenantor) } L.S.
in the presence of:
**Witness*
Signature
Address

SIGNED by the said
(Articled Clerk) } L.S.
in the presence of:
**Witness*
Signature
Address

*N.B. – A deed executed in Scotland requires two witnesses to each signature.

Finance and Commerce

Take-over forecasts

A FEATURE of take-over battles is invariably the forecasting of profit expansion by defending companies. Concerns with modest profit growth records can be relied upon to project an impressive break-out in earnings while those with fair records can be relied upon to forecast vast and early improvement. The City Panel on Mergers and Take-overs has so far acted on one occasion and has required some verification of profit forecasts, but there are a number of other cases where credulity has to be stretched to the limit, the English Institute has, of course, had something to say on this so far as accountants are concerned (see *The Accountant* July 27th).

The forecast of rising profits, and of dividends to go with them, is inevitably a key factor in take-over defence. If the defence is successful the company is then left to live up to its forecast. If the defence is unsuccessful then the forecast has served the purpose of wringing the best possible terms out of the bidder.

This is all part of the take-over game, if 'game' is the correct word, but post take-over figures are littered with the debris of unfulfilled forecasts. Successful bidders in such cases find themselves short on earnings to cover take-over servicing costs.

Renold-Crofts

Last summer Renold Ltd, of Manchester, finally won a long drawn out and bitterly contested 'trans-Pennine' take-over battle for Crofts Engineers Ltd, of Bradford. The battle followed the familiar course of an opening bid by Renold, with the bid accompanied by noises to the effect that it was a 'take-it-or-leave-it' matter. Inevitably the rejection of the bid brought an improvement in the terms until Renold won the day after Crofts' profits for 1967 had been forecast at £1,900,000.

The Renold accounts form this week's reprint and they show that, in order to achieve comparability, the profits of Crofts taken into the group profit and loss account represent 12/15ths of the United Kingdom companies' profits for the fifteen months from January 1st, 1967, to March 31st, 1968, plus the profits of their overseas companies for the twelve months to December 31st, 1967. The balance of the United Kingdom profits has been applied to reduce the premium on acquisition.

Since the interest payment on funds borrowed to effect the acquisition covered a period of six months, whereas twelve months' profits are taken into account, a special transfer of £242,000 has been made out of net earnings equivalent to the additional amount of interest, after tax, which would have been needed had the interest been payable throughout the 1967-68 financial year. The adjustment ensures that profits available as dividend cover are not overstated and will facilitate future comparisons.

Down on forecast

It will be seen that group profit on trading was £5,456,000 against £4,211,000, and on the indicated basis Crofts' contribution was £1,584,000, Profit on trading of Renold, other than Crofts, at £3,872,000 was down by £339,000. This, however, was better than the result forecast in an interim statement last November.

Commenting on the Crofts' profit position, Sir Thomas Robson, M.B.E., M.A., F.C.A., chairman of Renold, writes in his annual review: 'Those [profits] of the Crofts Companies (whilst unsatisfactory compared with their estimate of £1,900,000 for the twelve months ended December 31st, 1967 – made more than half-way through that year – with which they countered our offer) were nevertheless in line with what should have been expected in the light of their position and prospects at that time. In the event, the estimated profit of £1,900,000 was not reached even taking into account fifteen months' profit of Crofts United Kingdom companies'.

But Sir Thomas adds: 'we are satisfied that the benefits attainable from the merger fully justified the terms of the acquisition'. That statement suggests that the Renold board were prepared to allow the £1,900,000 profit forecast as ambitious but were willing to take it into account in take-over terms because of eventual benefits expected to stem from the merger of the two groups.

It can be assumed from the statement that Renold were expecting Crofts' profits to be something in the region of £300,000 below the take-over battle forecast.

Rights issue

Soon after the Renold accounts were issued, the company announced a rights issue for the purpose of repaying the bulk of the group's United Kingdom bank overdrafts and advances which stood at £8,277,000 at the end of the financial year last March. Foreshadowing this issue, the chairman, in his annual review, said it was hoped it would be possible for shares to be issued at a price which would result in a decreased outlay in servicing the dividend at the current rate on the new shares compared with the net cost of bank interest.

The rights issue took the form of 2,956,856 new £1 ordinary shares at 53*s* a share, the rights basis being four new shares for every twenty-five existing shares held. The issue will raise a net £7,600,000 and the difference between servicing the increased equity at the present dividend basis and the cost of bank interest at current rates is estimated at a saving of £371,000.

Group earnings are expected to be higher this year, but whether the increase is substantial or only moderate depends partly on the speed with which direct export expectations are realized and partly on the timing of industrial capital investment decisions both in this country and overseas. The year is expected to see a gradual but 'progressive and significant advance' in demand and a 'marked improvement' in exports is anticipated.

RENOLD LIMITED AND ITS SUBSIDIARIES

GROUP PROFIT AND LOSS ACCOUNT
FOR THE FINANCIAL YEAR ENDED THE 31ST MARCH 1968

	Note	Renold other than Crofts £	Crofts £	1967/68 £	1967/68 £	1966/7 £	1966/7 £
GROUP PROFIT ON TRADING FOR THE YEAR after charging depreciation £1,746,000—*£1,304,000*	1–2						
UK Companies		3,131,000	1,238,000	4,369,000		3,328,000	
Overseas Companies		741,000	346,000	1,087,000		883,000	
		3,872,000	1,584,000		5,456,000		4,211,000
Less Interest Payable less receivable	3				1,071,000		439,000
					4,385,000		3,772,000
Add Investment Grants	10				37,000		—
GROUP PROFIT FOR THE YEAR BEFORE TAXATION					4,422,000		3,772,000
Taxation based on profit of the year	4						
Corporation Tax at 42½%—*40%* after deducting double taxation relief £148,000—*£81,000*				1,421,000		1,209,000	
Overseas Taxes				490,000		389,000	
					1,911,000		1,598,000
GROUP PROFIT FOR THE YEAR AFTER TAXATION BUT BEFORE SPECIAL ADJUSTMENT					2,511,000		2,174,000
Less							
Special Adjustment	3			242,000		—	
Preference dividend paid to former shareholders of Crofts				6,000		—	
Loss/Profit attributable to Minority Interests in Subsidiaries				6,000		1,000	
					242,000		1,000
AVAILABLE NET PROFIT					2,269,000		2,173,000
Dividends of Renold Limited							
Preference including £9,000—*£9,000* accrued				35,000		35,000	
Ordinary (see Report of Directors)				2,008,000		1,432,000	
					2,043,000		1,467,000
AVAILABLE PROFIT OF THE YEAR RETAINED	9				£226,000		£706,000

The Profit and Loss Account should be read in conjunction with the notes on pages [225–226]

GROUP BALANCE SHEET
AS AT THE 31ST MARCH 1968

	Note	31st March 1968 £	31st March 1968 £	2nd April 1967 £	2nd April 1967 £
ASSETS LESS CURRENT LIABILITIES					
FIXED ASSETS					
Properties and Equipment	5	26,570,000		17,667,000	
Net premium on acquisition of shares in subsidiaries		18,726,000	45,296,000	5,547,000	23,214,000
UNQUOTED INVESTMENTS					
(Directors' valuation £62,000)			22,000		47,000
CURRENT ASSETS					
Stock	6	16,236,000		10,234,000	
Debtors		8,967,000		6,183,000	
Bank Balances and Cash		319,000	25,522,000	288,000	16,705,000
			70,840,000		39,966,000
deduct:—					
CURRENT LIABILITIES					
Creditors		5,261,000		3,519,000	
Bank Overdrafts and Advances	7	9,101,000		650,000	
Taxation		2,377,000		1,772,000	
Dividends		1,185,000		827,000	
			17,924,000		6,768,000
			£52,916,000		£33,198,000
FINANCED BY					
SHARE CAPITAL OF RENOLD LIMITED	8				
6% Cumulative Preference Stock		581,000		581,000	
Ordinary Stock		18,480,000	19,061,000	13,641,000	14,222,000
SHARE PREMIUMS	8		7,659,000		2,281,000
RESERVES	9		12,730,000		10,622,000
INVESTMENT GRANTS	10		690,000		—
LOANS					
6¾% Debenture Stock 1990/95 secured		3,000,000		3,000,000	
8% Debenture Stock 1991/96 secured		3,000,000		3,000,000	
7⅞% Unsecured Loan Stock 1992/97		6,679,000	12,679,000	—	6,000,000
MINORITY INTERESTS	11		97,000		73,000
			£52,916,000		£33,198,000

Approved by the Board

T. B. ROBSON
L. J. TOLLEY } Directors
JOHN P. HALPIN

The Balance Sheet should be read in conjunction with the notes on pages [225–226]

RENOLD LIMITED AND ITS SUBSIDIARIES

NOTES ON THE ACCOUNTS

1. FINANCIAL YEAR OF SUBSIDIARIES AND ACQUISITION OF CROFTS

The share capital of Crofts Engineers (Holdings) Limited was acquired during the year, partly for cash and partly for ordinary shares and unsecured loan stock of Renold Limited, the total cost including expenses being £23,356,000. The Renold ordinary shares so issued entitled their holders to dividends for the whole year to the 31st March 1968.

The Profit on Trading of the Crofts UK companies included in the Group accounts represents 12/15ths of their profit for the period of 15 months ended the 31st March 1968, the remaining 3/15ths of the profits having been applied against the premium on acquisition of the shares. The profit included in the Group accounts for the Crofts overseas companies is for the 12 months ended 31st December 1967, in line with the accounting period of the Renold overseas companies which are prepared at that date to avoid delay in the completion of the Group accounts.

2. FOREIGN CURRENCIES

Foreign currencies have been expressed in sterling as follows:—

Sales and trading results at the appropriate rates ruling before and after the devaluation of sterling; depreciation of fixed assets in most cases at the dates of acquisition or revaluation in earlier years.

Stocks of products imported from the U.K. at the rates ruling when acquired; all other assets and liabilities, including properties and equipment, at the rates ruling on 31st December 1967.

The resultant exchange differences have been dealt with as follows:—

(1) Profits arising relative to the settlement of trading and other current indebtedness amounting to £95,000 (which are mainly subject to taxation) have been credited to group profit on trading for the year.

(2) Surpluses arising on the expression in sterling for consolidation purposes of net current assets of overseas subsidiaries and loans from UK companies, amounting in aggregate to £343,000 (after making provision for taxation where appropriate), have been credited to reserves.

The expression in sterling at the exchange rates ruling on 31st December 1967 of the Properties and Equipment, which were revalued in local currencies as at that date, has enhanced the surplus on revaluation which has been credited separately to reserves.

3. INTEREST PAYABLE LESS RECEIVABLE

	£	£
Interest Payable:		
On loans repayable after 31st March 1973		
Debenture Stocks	442,000	*347,000*
Unsecured Loan Stock from 9th September 1967	287,000	
	729,000	*347,000*
On other borrowings repayable within 5 years comprising:		
Bank Overdrafts, advances and loans less Bank and other interest receivable	343,000	*96,000*
	1,072,000	*443,000*
Less: Income from Unquoted Investments	1,000	*4,000*
	1,071,000	*439,000*

SPECIAL ADJUSTMENT

This special adjustment recognises that the profits of Crofts are included as trading profit in the group profit and loss account for a period of 12 months whereas the interest charges incurred in financing the acquisition cover a period of approximately six months.

4. TAXATION

Relief for taxation is not obtainable on part of the Group's provision for depreciation because of revaluations of properties and equipment and higher past taxation allowances. For these reasons in this year's accounts taxation relief amounting to £11,000—*£42,000* has not been obtainable, whilst over the residual lives of the assets the aggregate diminution in taxation relief (calculated at the existing rates of taxation) would amount to approximately £3,710,000 (including Crofts)—*£5,452,000*.

In stating the foregoing amounts the investment grants credited this year and available for future credit to the profit and loss account have been taken into account.

As stated in note 6 provision for unrealised profit on inter-company sales has been made after deducting taxation. Accordingly the taxation charge for the year is reduced by £105,000 for which in last year's accounts there was no corresponding relief.

5. PROPERTIES AND EQUIPMENT

	RENOLD LIMITED Cost or Valuation	Depreciation		GROUP Cost or Valuation	Depreciation	
	£	£	£	£	£	£
As at beginning of year	*12,113,000*	*1,585,000*	*10,528,000*	*21,100,000*	*3,433,000*	*17,667,000*
Assets of subsidiaries acquired during the year				7,471,000	872,000	6,599,000
Additions	1,020,000		1,020,000	2,807,000		2,807,000
Less:						
Disposals	*64,000*	*31,000*	*33,000*	*152,000*	*90,000*	*62,000*
Depreciation and Amortisation		703,000	*703,000*		1,746,000	*1,746,000*
Total at end of year before revaluation	13,069,000	2,257,000	10,812,000	31,226,000	5,961,000	25,265,000
Deduct: Assets revalued at 31.12.67				4,849,000	1,227,000	3,622,000
Assets not revalued				26,377,000	4,734,000	21,643,000
Add: Assets as revalued at 31.12.67				4,927,000		4,927,000
Total, after revaluation, at end of year	13,069,000	2,257,000	10,812,000	31,304,000	4,734,000	26,570,000
Comprising:						
Freehold Property	3,182,000	343,000	2,839,000	9,429,000	986,000	8,443,000
Leasehold Property—Short Term	18,000	9,000	9,000	140,000	16,000	124,000
—Long Term	1,163,000	34,000	1,129,000	1,503,000	76,000	1,427,000
Plant, Machinery and Equipment	8,706,000	1,871,000	6,835,000	20,232,000	3,656,000	16,576,000
	13,069,000	2,257,000	10,812,000	31,304,000	4,734,000	26,570,000

BASIS OF DEPRECIATION

Depreciation is calculated by reference to original cost or valuation at fixed percentages according to assessed life: freehold land is not depreciated. Investment grants receivable in respect of the year's expenditure on plant and equipment (which amount to £343,000—*£189,000*) have not been deducted in stating the cost of the relative assets but are set aside in a separate account. See note 10 regarding basis of annual transfer to the group profit and loss account.

BASIS OF VALUATION

Total cost or valuation at 31st March 1968 is made up of:—

	RENOLD LIMITED	GROUP
Assets at valuations made in the following years	£	£
1958		807,000
1962		20,000
1964		2,335,000
1965	9,175,000	9,214,000
1967		8,300,000
Assets at cost	3,894,000	10,628,000
	13,069,000	31,304,000

Most of the plant and equipment of the Crofts home and overseas companies has been revalued with effect from the 1st January 1967, the overseas fixed assets being expressed in sterling at the exchange rates ruling on the 31st December 1967. The valuation was carried out by the Directors by reference to the present-day replacement cost, taking into account the remaining life of the assets—the surplus on revaluation has been applied in reduction of the premium on acquisition. No material change has taken place in the value of properties of Crofts.

In addition the properties and equipment of overseas subsidiaries other than Crofts were revalued by the Directors at 31st December 1967 on a similar basis; the surplus arising on these revaluations amounting to £1,305,000 has been taken to reserves and includes the enhancement due to the revalued assets being expressed in sterling at the exchange rates ruling on the 31st December 1967. As these revaluations took place on the 31st December 1967 the depreciation charge for the year is not affected thereby or by devaluation; next year's charge will be about £69,000 more.

FUTURE CAPITAL EXPENDITURE

At the accounting dates the Directors had authorised capital expenditure, not included in the accounts, amounting to approximately £3,353,000 (Renold Limited £2,444,000) for which contracts had been placed for the following amounts:—

Group	£1,309,000	*£1,219,000*
Renold Limited	£819,000	*£933,000*

Investment Grants receivable in respect of the above contracts for UK companies are expected to amount to £225,000—*£125,000*.

RENOLD LIMITED AND ITS SUBSIDIARIES

NOTES ON THE ACCOUNTS

6. STOCK

Stock is stated at cost (including a proportion of overhead expenditure) as determined in accordance with the regular practices of the companies in the group less allowances where appropriate to reduce to net realisable value and after deducting in the Group Balance Sheet £507,000—*£510,000* for unrealized profit on inter-company sales. In this year's accounts the provision is £859,000 (including Crofts) calculated on the same basis as hitherto, reduced by £352,000 for future taxation relief. The comparable tax relief at 2nd April 1967 would have been £205,000 and this amount has been credited to reserves (note 9).

7. BANK OVERDRAFTS

Bank overdrafts and advances amount to £9,101,000—*£650,000*. They include for overseas subsidiaries £278,000—*£206,000* guaranteed by Renold Limited and £107,000—*£114,000* secured on certain overseas assets.

8. SHARE CAPITAL SHARE PREMIUMS

During the year the authorised share capital was increased by £5,500,000 to £22,500,000 and the issued share capital by £4,839,000 issued as part consideration for holdings in Crofts. The share premium on this issue, less expenses, involved an increase of £5,378,000 in the Share Premium Account.

UNSECURED LOAN STOCK

As other consideration for the exchange the Company created and issued to holders of the Crofts shares £6,679,000 of 7⅞% Unsecured Loan Stock 1992/97.

9. MOVEMENTS ON RESERVES

	RENOLD LIMITED £	GROUP £
As at the 2nd April 1967	7,162,000	10,622,000
Transfer to Investment Grants Account	*117,000*	*216,000*
Profits Retained (Subsidiaries £254,000)	*28,000*	226,000
Exchange differences on net current assets (note 2)		343,000
Special adjustment (note 3)	242,000	242,000
Release of taxation relative to the provision for unrealised profit (note 4)	157,000	205,000
Surplus on revaluation of fixed assets (note 5)		1,305,000
Consolidation adjustments		3,000
As at the 31st March 1968	£7,416,000	£12,730,000
Reserves arising from revaluation of properties and equipment included above amount to	£2,081,000	£3,776,000

Distributions by overseas subsidiaries would in most cases be subject to additional taxation.

10. INVESTMENT GRANTS

Investment Grants have previously been taken to Reserves but are now shown under a separate heading in the Balance Sheets. A proportion of these grants based on the average life of all the relevant fixed assets is being credited annually to Profit and Loss Account.

	RENOLD LIMITED £	GROUP £
Investment Grants in respect of previous years transferred from Reserves	117,000	216,000
Investment Grants of the Crofts UK Companies at the 31st March 1967		168,000
Estimated grants receivable for the year	152,000	343,000
	269,000	727,000
Less amount credited to Profit and Loss Account this year	13,000	37,000
	£256,000	£690,000

11. MINORITY INTERESTS

The interests of minority shareholders are stated at the amount of such interests in going concerns and do not take account of any additional rights of participation which these shareholders may have on winding up.

12. CONTINGENT LIABILITIES

Contingent Liabilities for bills under Discount or for Collection amounted to £474,000—*£337,000*.

13. GROUP SALES

The invoice value of group sales for the financial year after deducting sales within the group amounted to £36,537,000.

14. REMUNERATION OF DIRECTORS

The remuneration of Directors and past Directors of Renold Limited included as a charge in the year's accounts amounted to £122,000—*£114,000* made up of Fees £14,000—*£15,000* other Emoluments £103,000—*£94,000* and Pensions for Executive Services £5,000—*£5,000*.

Emoluments excluding pension contributions

Chairman—		
Sir Charles Renold to 3rd August 1967	£ 2,500	*£ 7,000*
Sir Thomas Robson from 4th August 1967	£ 3,300	
Highest paid Director	£18,500	*£16,000*

Number of Directors whose emoluments are:—

£ 1—£ 2,500	5	*7*	£10,001—£12,500	—	*1*
£2,501—£ 5,000	5	*2*	£12,501—£15,000	2	*2*
£5,001—£ 7,500	—	*1*	£15,001—£17,500	1	*1*
£7,501—£10,000	1	*1*	£17,501—£20,000	1	—

15. REMUNERATION OF AUDITORS

The remuneration of Auditors including expenses amounted to £35,000—*£29,000*.

16. SHARE OPTIONS

These have been granted to Executive Directors and to certain Senior Executives of the Group under a scheme established in 1965 to subscribe for ordinary shares of Renold Limited.

—128,250 at a price of 44s. 0d. per share up to and including 29th September 1975

— 3,525 at a price of 44s. 10d per share up to and including 11th May 1976

CITY NOTES

IT is always interesting to see the City working itself into a lather over the prospect of a cut in Bank rate, but in the present interest-rate context, lower rates certainly do not mean easier credit.

The banks are under the tightest lending rein from which they have ever suffered and far from lower interest on bank loans meaning easier borrowing conditions for private customers, the present situation is that private borrowers may find conditions becoming tighter still.

Since the banks have now to get all lending – export lending included – under the 104 per cent 'devaluation' ceiling, private borrowers are very much at the back of the queue. That is particularly so since export-led borrowing demands are strong.

In the stock-market, lower interest rates and a firmer gilt-edged market are likely to reinforce rather than undermine equities even if there should be some institutional emphasis on the gilt-edged market and fixed interest stocks in particular.

It will take more than a Bank rate reduction and a marginal switch of institutional emphasis to wean the bulk of investors away from equities, even at the present pitch of prices.

* * * *

REFERRING back to credit restrictions, Mr Alexander Ross, chairman of United Dominions Trust, recently commented with some force on the imposition of credit controls which treat all types of credit the same way. There is obvious sense, Mr Ross admits, in looking for simply-applied restraints on the volume of credit available for non-industrial and non-productive purposes. But 'no discernible sense in applying virtually identical curbs on credit for productive plant and equipment'.

The tempting habit of regarding all instalment credit as consumer credit should yield to something more sophisticated, distinguishing between the consumer and industrial fields. 'It seems unrealistic', Mr Ross comments, 'to expect unqualified support and enthusiasm from bankers and industrialists when controls are imposed in such a way as to make the orderly provision of credit practically impossible'.

* * * *

THE *Midland Bank Review* takes the view that there are grounds for considering that the British economy may be moving 'on a more satisfactory course'. Devaluation advantages should soon become more apparent. The Bank's view is that the better sentiment in foreign exchange markets could well be strongly reinforced in the next few months.

With imports at least flattening off, if not turning down, and export signs 'much more propitious', the general trade trend is regarded favourably. But the point is made that 'for the economy as a whole, much depends on the firm maintenance of restraint on incomes, and here substantial pressure will no doubt have to be met'.

* * * *

HAVING lent £165·2 million in the first half of this year, the Halifax Building Society – despite a slow down in the intake of funds – hopes to lend some £300 million in the full year, the target at which sights were originally set. Mr I. A. D. Maclean, the Society's President, says, in a half-year report, that the directors are prepared to see some further slight reduction in the liquidity ratio in order to meet the lending figure. At the end of July liquid resources represented 15·5 per cent of total assets of £1,375 million, compared with 18·7 per cent at the end of January when assets were £1,296 million.

RATES AND PRICES

Closing prices, Tuesday, August 13th, 1968

Tax Reserve Certificates: (29.11.67) Companies 4⅜%; 3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966	7%	Oct. 19, 1967	6%
Jan. 26, 1967	6½%	Nov. 9, 1967	6½%
Mar. 16, 1967	6%	Nov. 18, 1967.. ..	8%
May 4, 1967	5½%	Mar. 21, 1968.. ..	7½%

Treasury Bills

June 7 ..	£7	4*s*	3·30*d*%	July 12 ..	£7	3*s*	5·60*d*%
June 14 ..	£7	3*s*	9·58*d*%	July 19 ..	£7	2*s*	5·25*d*%
June 21 ..	£7	3*s*	8·57*d*%	July 26 ..	£7	1*s*	2·22*d*%
June 28 ..	£7	4*s*	10·04*d*%	Aug. 2 ..	£7	0*s*	4·48*d*%
July 5 ..	£7	4*s*	9·73*d*%	Aug. 9 ..	£6	18*s*	6·27*d*%

Money Rates

Day to day ..	$5\frac{7}{8}$–$6\frac{15}{16}$%	*Bank Bills*	
7 days	5¾–7%	2 months ..	$7\frac{3}{8}$–$7\frac{7}{16}$%
Fine Trade Bills		3 months ..	$7\frac{3}{8}$–$7\frac{7}{16}$%
3 months ..	8½–9%	4 months ..	$7\frac{3}{8}$–$7\frac{7}{16}$%
4 months ..	8½–9¼%	6 months ..	$7\frac{3}{8}$–$7\frac{7}{16}$%
6 months ..	8¾–9½%		

Foreign Exchanges

New York	$2·39\frac{9}{32}$	Frankfurt ..	$9·62\frac{13}{16}$
Montreal	$2·56\frac{29}{32}$	Milan	$1487\frac{19}{32}$
Amsterdam ..	$8·67\frac{29}{32}$	Oslo	17·10
Brussels	119·76	Paris	11·90¾
Copenhagen ..	17·99⅞	Zürich	$10·31\frac{15}{16}$

Gilt-edged

Consols 4% ..	$53\frac{5}{16}$	Funding 6% 1993	81¼xd
Consols 2½% ..	34⅛	Savings 3% 60–70 ..	$91\frac{11}{32}$
Conversion 3½% ..	$48\frac{1}{16}$	Savings 3% 65–75 ..	$75\frac{1}{16}$
Conversion 5% 1971	93⅛	Treasury 6½% 1976	94⅞
Conversion 5¼% 1974	90⅜	Treasury 3½% 77–80	73
Conversion 6% 1972	$95\frac{1}{16}$	Treasury 3½% 79–81	$69\frac{5}{16}$
Funding 3½% 99–04	$52\frac{9}{16}$	Treasury 5% 86–89	$74\frac{13}{16}$
Funding 4% 60–90	96⅛	Treasury 5½% 08–12	73¾
Funding 5¼% 78–80	82¾	Treasury 2½% ..	34⅜
Funding 5½% 82–84	$81\frac{9}{16}$	Victory 4%	$95\frac{5}{16}$
Funding 5¾% 87–91	81¾	War Loan 3½% ..	$47\frac{9}{16}$

Correspondence

Integration of the Profession

Sir, – Having read the English Institute's publication on the proposed integration scheme, I should like to inquire into the significance of paragraph 3 of Appendix 'B' which states:

> 'Members of the participating bodies may choose which of the three enlarged Institutes they will join on integration except that members born in Ireland and who, on the appointed day for integration, are normally resident in Ireland will be eligible to join only the Irish Institute.'

I feel it desirable to question firstly why, if the Irish Institute is acceptable as a party to the integration, any limitation of the rights of the Irish is considered necessary; and secondly, whether the limitation applies only to the Institute which a member may join on the day of integration, since paragraph 8 of Appendix 'B' in dealing with dual membership does not mention any restriction on the eligibility of native-resident Irishmen to apply for the membership of the other Institutes.

Even less comprehensible than a general limitation is the fact that this provision would appear to exclude from the English Institute those Irishmen who obtained their qualification in England but have since returned to their native land.

Yours faithfully,

Ilford, Essex. DAVID W. POYNER, A.C.A.

Sir, - We have had the opportunity of reading Mr Poyner's letter [reproduced above], and as the representatives of The Institute of Chartered Accountants in Ireland on the Joint Steering Committee we wish to make the following comments.

It may not be generally known that the Irish Institute embraces the whole of Ireland and is subject to the legislation of both the Republic and the North of Ireland. It is the principal body of qualified accountants in Ireland and it is vital that its reputation and its present and potential membership should be maintained. Any reduction in the relative membership or status of the Irish Institute could create an opportunity for a less representative body to breed with the risk of a reduction in professional standards.

Whilst there are three separate Chartered Institutes it is fundamental that the growth of the Irish Institute be encouraged and guarded so that the profession in Ireland is represented by a body whose standards of training are equal to those of its sister Institutes.

Under the existing bye-laws of the Irish Institute, members of the English and Scottish Institutes can obtain, without examination, membership of the Irish Institute; the same rights are not at present available to members of the Irish Institute. Under the proposals for reciprocal membership – which are part of the integration scheme – this anomaly will be removed.

Yours faithfully,

THOMAS KENNY,
London EC. CHARLES F. NICHOLSON.

Sir, - At a meeting held on August 3rd and 4th, the National Executive Committee of the Union of Chartered Accountants Students' Societies considered the integration scheme which was published by The Institute of Chartered Accountants in England and Wales on July 25th. Whilst approving the scheme in principle, the committee have major reservations on certain proposals:

1. We are extremely disappointed that the three Chartered Institutes have been unable to unite into a single accountancy body.
2. We consider many of the reforms necessary for the improvement of the present chartered profession could have been implemented before attempting integraion.
3. We require evidence that stringent regulations for the control of the quality of a student chartered accountant's practical and theoretical training will be enforced.
4. The present proposals for the continuation of articles of clerkship under the new name of 'training contracts' are insufficient. We shall press for the inclusion therein of a clause enabling either party to the contract to withdraw, subject to reasonable notice being provided.

Yours faithfully,

C. GEOFFREY MORGAN,
London EC2. *Chairman.*

The Move to Stop *Chartac*

Sir, – Whatever the merits of the original motion to issue a free journal to all members, I hope no one will disagree that members voting on this proposal should be fully and accurately informed as to what has happened so far.

It is perhaps unfortunate, therefore, that the letter from Mr Couldery, the sponsor of the original motion, published in your issue of August 3rd, could be misleading at first sight. It states that the decision to have an Institute journal was ' . . . taken by 11,805 members on a proxy vote. . . .' It is, of course, true to say that 11,805 members voted, but an examination of the voting figures show that the majority in favour of the resolution was in fact 371.

Whether this vote was part of a 'protest vote' against the proposed subscription increases is not clear, but the marked disparity between the voting of those present at the A.G.M. who had had an opportunity to hear the pros and cons of the argument (44 for the motion, 317 against) and the proxy votes sent to the Institute before the A.G.M., suggests that members may have taken a decision that they would now be glad to reconsider.

Yours faithfully,

Camberley, Surrey. I. W. FOTHERINGHAM.

The Institute of Chartered Accountants in England and Wales

Special and Ordinary Meetings of the Council

At special and ordinary meetings of the Council held on Wednesday, August 7th, 1968, there were present:

Mr S. Dixon, President, in the Chair; Mr R. G. Leach, C.B.E., Deputy-President; Mr C. Croxton-Smith, Vice-President; Messrs J. F. Allan, G. R. Appleyard, C. J. M. Bennett, G. T. E. Chamberlain, N. Charlton, L. H. Clark, D. A. Clarke, R. W. Cox, W. G. Densem, P. H. Dobson, S. M. Duncan, J. V. Eastwood, S. Edgcumbe, W. W. Fea, J. P. Grenside, S. C. Hand, S. R. Harding, W. Hare, J. S. Heaton, J. A. Jackson, A. W. John, C.B.E., H. O. Johnson, G. B. Judd, H. Kirton, T.D., S. Kitchen, J. F. Knight, R. B. Leech, M.B.E., T.D., R. McNeil, B. A. Maynard, S. A. Middleton, W. Bertram Nelson, C.B.E., E. J. Newman, W. E. Parker, C.B.E., F. E. Price, C.B.E., L. W. Robson, E. C. Sayers, K. J. Sharp, T.D., R. G. Slack, H. G. Smith, G. Tattersall-Walker, A. H. Walton, D. N. Walton, A. S. Watson, J. Whitehead, J. C. Montgomery Williams, E. K. Wright.

Reginald Percy Matthews, J.P., B.Com., F.C.A.

The Council received with much regret notice of the death of Mr Reginald Percy Matthews, J.P., B.COM., F.C.A., London. Mr Matthews was elected to the Council in 1958, and had been chairman of the Disciplinary Committee since June 1967.

Appointment to the Council

Mr R. H. Taylor, F.C.A., Bury St Edmunds, was appointed a member of the Council to fill the vacancy caused by the resignation of Mr G. G. G. Goult, F.C.A., Ipswich.

Chairmen and Vice-Chairmen of Committees

The election of the following chairmen and vice-chairmen of Committees for the ensuing year was reported:

Articled Clerks:
Chairman, Mr R. G. Slack; Vice-Chairman, Mr G. T. E. Chamberlain.

District Societies:
Chairman, Mr R. W. Cox; Vice-Chairman, Mr S. A. Middleton.

Internal Services:
Chairman, Mr L. W. Robson; Vice-Chairman, Mr S. C. Hand.

P. D. Leake
Chairman, Mr Bertram Nelson.

Professional Standards:
Chairman, Mr Bertram Nelson; Vice-Chairman, Mr S. M. Duncan.

Research:
Chairman, Mr J. D. Green; Vice-Chairman, Mr J. F. Allan.

Auditors' Reports

The Council approved a statement 'Auditors' reports: forms and qualifications' for publication in the professional Press and for distribution to members in the next circulation of printed matter as U 10 in the series on Statements on Auditing in the *Members' Handbook*, in place of the existing Statements U 6 and U 8.

The Accounts of Investment Trust Companies

The Council approved a statement 'The accounts of investment trust companies' for publication and for distribution to members in the next circulation of printed matter as N 28 in the series 'Recommendations on Accounting Principles'. The statement is reproduced on other pages.

British Standards Institution

It was reported that an invitation had been received from the British Standards Institution for the Institute to appoint a representative to the Technical Committee S/1 Bound Account and Manuscript Books and that Mr A. Pinkney, F.C.A., London, had been appointed as the Institute's representative.

University of Sussex

It was reported that an invitation had been received from the University of Sussex for the Institute to appoint a representative to serve on the Court of the University for the period from August 1st, 1968, to July 31st, 1971, and that Mr A. G. J. Horton-Stephens, F.C.A., Brighton, had been re-appointed as the Institute's representative.

Brooksby Agricultural College

It was reported that an invitation had been received from the Director of Education for Leicester for the Institute to appoint a representative to a committee advising the Principal of the Brooksby Agricultural College on the running of its farm secretaries courses and that Mr F. R. Dixon, F.C.A., Leicester, had been appointed as the Institute's representative.

National Advertising

It was reported that the greater use of careers supplements and new formats for the advertisements in the 1968 recruitment advertising campaign had resulted in a significant fall in the unit cost per reply and an improvement in the quality of the response.

Business Game Film

It was reported that a Press premiere of the Business Game recruitment film was held on July 2nd, 1968. A special showing was also held for district society representatives on July 26th, 1968. Arrangements have been made for copies of the film to be available on free loan from the Institute or from two distribution agencies. An unexpectedly large demand for the film has been experienced both from educational bodies and from industry.

Sandwich Degree Courses

The following statement was approved for publication:

> 'The Council has previously announced the limits within which it will recognize time spent by an articled clerk on his principal's business of public accountant during a sandwich type degree course recognized by the Joint Standing Committee of the Universities and the Accountancy Profession. It was decided that the same limits should apply to articled clerks who follow other sandwich type degree courses. Particulars may be obtained on application to the offices of the Institute.'

National Insurance, Selective Employment Tax and Articled Clerks

The Council approved a statement for publication on National Insurance and Selective Employment Tax in respect of articled clerks [reproduced on page 222 of this issue].

Continuous Service

The Council approved the following statement for publication:

> 'A number of cases have recently arisen where a period of six months or more has elapsed between the date a principal died or otherwise ceased to practise and a transfer of articles to a new principal. Any period between the date of death of a principal and the execution of new articles does *not* form part of the period of valid service under articles unless, on application, the Council in its discretion allows service to be deemed continuous. The Council is concerned that these cases of an excessive lapse of time may indicate that the training of the articled clerk is not receiving proper consideration and wishes to stress the seriousness with which it regards this matter.

Capital Gains Tax Final Part I Examination

The Council approved the following statement for publication:

> 'Questions will not be set involving the computation of liabilities to capital gains tax. Candidates will, however, be expected to have sufficient elementary knowledge of the tax to enable them to deal with its presentation in the accounts of administrators, executors and trustees and its impact on estate duty valuations and computations.
>
> 'This change will become effective for the May 1969 and subsequent examinations.'

Examination Results – May 1968

It was reported that the results of the examinations held in May 1968 were as follows:

	Pass	*Fail*	*Total*	*Completing Final Examination*
Final:				
Parts I and II together	7	14	21	7
Part I only	1,551	1,592	3,143	2
Part II only	1,214	1,216	2,430	1,213

The names of the successful candidates and of those placed in order of merit and awarded prizes are published as a supplement to this issue.

Registration of Articles

The Secretary reported the registration of sixty articles of clerkship during June 1968, the total number since January 1st, 1968, being 1,004.

Admissions to Membership

The following were admitted to membership of the Institute:

Dixon, John Bradford, A.C.A., *a*1968; 28 Pilkington Avenue, Sutton Coldfield.
Hare, Christopher George, A.C.A., *a*1968; 6 Bibsworth Road, London N3.
Khanna, Ashok, B.SC.(ECON), A.C.A., *a*1968; 167 Howland Avenue, Toronto 4, Ontario, Canada.
Wood, David Bernard, B.A., A.C.A., *a*1968; 38 Marrion Road, Liverpool 17.

Fellowship

The Council granted applications from ten associates to become fellows under clause 6 of the supplemental Royal Charter.

Incorporated Accountant Members Becoming Chartered Accountants

The Council granted applications from the following incorporated accountant members to become Chartered Accountants under bye-law 128 or 129:

Murray, Andrew Milne, A.C.A., Johannesburg.
Penkin, Raymond, F.C.A., Upington, Cape.
Ross-Jones, Douglas Hugh, A.C.A., Johannesburg.

Members Commencing to Practise

The Council received notice that the following members had commenced to practise:

Abel, Alan Ralph, F.C.A., *a*1957; Aveyard Miller & Co, 797 London Road, Thornton Heath, Surrey, CR4 6YT.
Allen, John Kennard, A.C.A., *a*1968; 123 Ansty Road, Coventry, Warwickshire.
Allen, John Philip, A.C.A., *a*1964; 91 Elms Avenue, Littleover, Derby.
Ash, Desmond Anthony, A.C.A., *a*1965; *Guard, D'Oyly & Co, 46 Rother Street, Stratford-upon-Avon, Warwicks.
Austin, Leonard Alfred, F.C.A., *aS*1956; †Down, Kilner & Co, 22 City Road, London EC1.
Barker, Douglas Andrew, A.C.A., *a*1968; Armitage, Davis & Co, 1 Cecil Court, London Road, Enfield, Middx.
Baxter, Peter, F.C.A., *a*1953; West & Drake, 16 Market Place, Reading, Berks.
Booth, Frank Andrew, A.C.A., *a*1966; Booth Ainsworth & Co, Ashfield Chambers, 12 Ashfield Road, Cheadle, Cheshire.
Bown, John Anthony, A.C.A., *a*1962; Saml Edwd Short & Co, 17 Gluman Gate, Chesterfield, Derbyshire.
Bridger, Colin Henry, A.C.A., *a*1958; Bayberry, Clifton Road, Chesham Bois, Amersham, Bucks.
Brown, John Alfred, A.C.A., *a*1967; Arthur Blythe & Co, 'The Uplands', 145 Manor Road, Derby, DE3 6BU.
Bryant, George Robert, M.A., A.C.A., *a*1964; Bryant, Mayl & Co, 24 South Street, Valletta, Malta, G.C.
Chakko, Philip Francis, A.C.A., *a*1961; Philip Chakko & Co, 30 Twyford Avenue, London W3.
Clement, Roger John, A.C.A., *a*1964; Pitman, Cakebread & Co, Charter House, Claremont Road, Surbiton, Surrey.
Crawhall, John Michael, A.C.A., *a*1962; Forrestal Crawhall & Co, 16 Bondgate Without, Alnwick, Northumberland.
Cunynghame, Andrew David Francis, A.C.A., *a*1966; †Dunn, Wylie & Co, Chile House, 20–24 Ropemaker Street, London EC2.
Dennis, Philip Gavril, A.C.A., *a*1967; Goldberg Atlas & Co, 62 Park Place, Cardiff, CF1 3AS.
Derry, Harold Norman, F.C.A., *a*1955; 3 Branksone Road, Redland, Bristol, BS6 7LL.
Drew, Barry Gordon, F.C.A., *aS*1955; †Thomson McLintock & Co, 12 Booth Street, Manchester 2.
Dunn, Robert Martin, B.SC.(ECON), F.C.A., *a*1956; Chipchase, Wood & Co, 5 Victoria Avenue, Bishop Auckland, Co Durham.
Edelman, Jeffery, A.C.A., *a*1961; Gerald Edelman & Co, 25 Harley Street, London W1.
Epstein, David, A.C.A., *a*1966; David Epstein & Co, 7 Savoy Close, Edgware, Middlesex.
Evans, John Spencer Garrick, A.C.A., *a*1966; Pritchard & Co, Sycamore Lodge, Hamilton Street, Fishguard, Pembs.
Feeley, Cyril Vincent, A.C.A., *a*1962; 5 Queensway, Penwortham, Preston, PR1 ODS, Lancs.
Ferguson, Henry Robert Hawkins, A.C.A., *a*1961; Airey Sutton & Hooper, 55 Hoghton Street, Southport, Lancs.
Found, Dennis William Arthur, F.C.A., *aS*1956; *H. Edgar Hunt & Co, 20 Churchill Way, Cardiff.
Gammon, Stephen John, F.C.A., *a*1953; Gammon & Co, P.O. Box 1359, Suva, Fiji.
Gee, Christopher John, A.C.A., *a*1965; †Tansley Witt & Co, 28 Ely Place, London EC1.
Gillmore, Frederick Charles, A.C.A., *a*1963; Wontner Smith & Co, 131 City Road, London EC1.
Halpin, Cecil Francis, A.C.A., *a*1964; †Tansley Witt & Co, 28 Ely Place, London EC1.
Hanson, James Donald, F.C.A., *a*1957; Arthur Andersen & Co, Scottish Life House, Bridge Street, Manchester 3.
Hart, Reginald Frank Lucas, F.C.A., *aS*1931; Chanctonbury House, Bayards, Steyning, Sussex.

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a Indicates the year of admission to the Institute.

aS Indicates the year of admission to The Society of Incorporated Accountants.

Firms not marked † or * are composed wholly of chartered accountant members of the Institute.

† Against the name of a firm indicates that the firm, though not wholly composed of members of the Institute, is composed wholly of chartered accountants who are members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

* Against the name of a firm indicates that the firm is not wholly composed of members of one or another of the three Institutes of chartered accountants in Great Britain and Ireland.

Ingle, John David, A.C.A., *a*1959; Gerald Edelman & Co, 25 Harley Street, London W1.

King, Ian Ayliffe, A.C.A., *a*1962; Chalmers, Impey & Co, Edmund House, 12 Newhall Street, Birmingham 3.

Lamaison, Peter Laurens, A.C.A., *a*1965; †Arthur Young McClelland Moores & Co, Moor House, London Wall, London EC2.

Lambourne, Ralph Rosoman, F.C.A., *a*1951; *Geo. Mackenzie & Co, Netherlands Bank Building, Livingstone Avenue, P.O. Box 811, Gwelo, Rhodesia.

Lintott, Graham Gordon, A.C.A., *a*1967; 1A Merilies Close, Westcliff-on-Sea, Essex.

McNiff, John Joseph, A.C.A., *a*1967; 5 Anson Road, London NW2.

Marsden, Kenneth Arnold, A.C.A., *a*1960; 4 Crewe Green, Arrowe Park, Birkenhead, Cheshire.

Masini, Charles Alfred, A.C.A., *a*1964; Rawlinson & Hunter, 51 Green Street, London W1.

Mehyar, Abdul Majid, F.C.A., *a*1946; Paris & Co, P.O. Box 12-1153, Tehran, Iran.

Miller, John Allen, A.C.A., *a*1958; Rawlinson & Hunter, 51 Green Street, London W1.

Miller, John James, A.C.A., *a*1966; J. B. Boyd, Wrigley & Co, 55 Brown Street, Manchester 2.

Millward, John Roger, A.C.A., *a*1965; Cornwall House, 31 Lionel Street, Birmingham 3.

Morris, John Charles, F.C.A., *aS*1928; 21 Grange Road, Deane, Bolton, Lancs.

Nagler, Stuart Martin, A.C.A., *a*1968; Stuart M. Nagler & Co, 52 Gibbs Green, Edgware, Middlesex.

Norman, Richard Francis, A.C.A., *a*1963; J. & A. W. Sully & Co, St Bride's House, Salisbury Square, London EC4.

Oakes, Colin Robert Allan, A.C.A., *a*1965; Stewart Fletcher & Barrett, 126 Manor Court Road, Nuneaton, Warwickshire.

Parkhurst, Anthony George, A.C.A., *a*1961; White & Pawley, Torrington Chambers, 58 North Road, Plymouth.

Parsons, Bernard Harold, A.C.A., *a*1967; Barter Durgan & Co, 10 Victoria Road South, Southsea, Hants.

Pimm, Malcolm Arthur, A.C.A., *a*1965; 10 Sheepcot Drive, Garston, Watford, Herts.

Pincus, Barry Martin, A.C.A., *a*1967; 4 Audley Close, Boreham Wood, Herts.

Potts, Michael Stuart, A.C.A., *a*1963; †Cooper Brothers & Co, 31 Fitzwilliam Place, Dublin 2, Republic of Ireland.

Roberts, Meirion, LL.B., A.C.A., *a*1965; J. Llywelyn Hughes & Co, Britannic Chambers, 12 High Street, Blaenau Ffestiniog, Merioneth.

Rockall, David John, A.C.A., *a*1962; Clifford Towers Woodroffe & Co, 13 Guildhall Road, Northampton.

Sharp, Leslie Norman, F.C.A., *aS*1956; R. H. Green & Co, 20 Stourbridge Road, Halesowen, Worcs.

Siddiqi, Kazi Mohd Anis Ahmad, A.C.A., *a*1968; S. Syedain & Co, 12 Castleton Avenue, Wembley, Middlesex.

Skerry, John Humphrey, A.C.A., *a*1966; Selbey Smith & Earle, 6 Bedford Row, London WC1.

Smith, John George, F.C.A., *aS*1956; Arnold Smith & Co, Welland House, High Street, Spalding, Lincs.

Smith, Norman, F.C.A., *a*1949; Martins Bank Chambers, Hebden Bridge, Yorkshire.

Taylor, William Brian, A.C.A., *a*1964; Barron & Barron, 1 Minster Gates, York.

Tiffin, Colin Michael, A.C.A., *a*1967; Tiffin Green & Co, 21 New Road, Brentwood, Essex.

Tomlinson, John Anthony, A.C.A., *a*1967; Wright & Favell, 47 Bank Street, Sheffield 1.

Tongue, Clive Edwin, A.C.A., *a*1964; Brookes, Morris & Co, Municipal Bank Chambers, Church Square, Oldbury, Warley, Worcestershire.

Turner, Ian Rutherford, A.C.A., *a*1961; Thornton Baker & Co, Alliance House, Hood Street, Newcastle upon Tyne, NE1 6LB.

Wild, Alan, F.C.A., *aS*1954; Stott & Golland, 134 Drake Street, Rochdale.

Wild, Graham Peter, A.C.A., *a*1965; Airey Sutton & Hooper, 55 Hoghton Street, Southport, Lancs.

Re-admission to Membership

Subject to payment of the amounts required by the Council, two former members of the Institute were re-admitted to membership under clause 23 of the supplemental Royal Charter. One application under clause 23 (of the supplemental Royal Charter) was refused.

It was reported to the Council that the following re-admission, made at the Council meeting on June 5th, 1968, subject to payment of the amount required, had become effective:

Zain, Masud, A.C.A., 46-D Mohammad Ali Housing Society, Karachi, Pakistan.

Deaths of Members

The Council received with regret the Secretary's report of the deaths of the following members:

Barlow, David, F.C.A., Bolton.
Breaks, William, F.C.A., Willowdale, Ontario.
Brown, Reginald Ellman, F.C.A., Woldingham, Surrey.
Burnham, Guy Noel, F.C.A., Hawkhurst, Kent.
Cartwright, Harold James, O.B.E., F.C.A., Witley, Surrey.
Clayton, Thomas, F.C.A., Bingley, Yorks.
Clough, Horace, R.D., F.C.A., Colchester.
Coke, John Francis, F.C.A., Bootham Park, Yorks.
Croudson, Paul, F.C.A., Leeds.
Foster, Henry Harris, F.C.A., London.
Fremantle, Francis David Eardley, T.D., D.L., J.P., M.A., F.C.A., Hertford.
Grant, Richard James, A.C.A., East Horsley, Surrey.
Hall, Frank, F.C.A., Leeds.
Hardy, George Ebblewhite, F.C.A., Preston.
Hayllar, Eric Charles, F.C.A., Exeter.
Hickman, Guy Perkins, F.C.A., Poole, Dorset.
Hepburn, Arthur Edward, F.C.A., London.
Marsh, George Ernest, F.C.A., Coulsdon, Surrey.
McDonald, William Hector, F.C.A., Great Wakering, Essex.
McGuire, George Thomas Dominic, F.C.A., Leeds.
Mellor, Norman, F.C.A., Southport, Lancs.
Middleton, Alan, F.C.A., Newcastle upon Tyne.
Parrott, James Newcome, F.C.A., Kings Nympton, Devon.
Peterson, Peter Arnold, F.C.A., London.
Sidney, Brian Leofric Morris, A.C.A., Evesham, Worcs.
Simpson, Rowland Geoffrey Archbold, T.D., F.C.A., Durham City.
Sweet, Arthur, F.C.A., London.
Thomas, Charles Holt, F.C.A., Ipswich.
Thompson, Arthur Frank, F.C.A., Broadstairs, Kent.
Timpany, Robert Percival, F.C.A., Bury.
Tooley, Raymond John, F.C.A., Nottingham.
Triffitt, William Lawrence, F.C.A., Scarborough.
Wood, Charles Harvey Whitney, B.SC. (ECON.), F.C.A., Shrewsbury.
Wynne, Robert William, F.C.A., Birmingham.
Young, Frederick Brian, F.C.A. Axminster.

FINDINGS AND DECISIONS OF THE DISCIPLINARY COMMITTEE

Findings and Decisions of the Disciplinary Committee of the Council of the Institute at hearings held on June 5th, 1968

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Michael George Hocknell, a Fellow of The Institute of Chartered Accountants in England and Wales, and practising alone under the name M. G. Hocknell & Associates (A) had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of Clause 21 sub-clause (3) of the supplemental Royal Charter in that he failed within a reasonable time to notify the Institute in accordance with the terms of Bye-law 36 that he was in practice; (B) has failed to satisfy two judgment debts within the meaning of Clause 21 sub-clause (4) of the supplemental Royal Charter in that (i) a limited company having obtained a judgment dated September 20th, 1967, against M. G. Hocknell & Associates in a County Court for the sum of £113 4*s* 1*d* together with costs to be taxed he has failed to satisfy such judgment debt which with the said costs taxed at £38 13*s* 9*d* amounts to a total of £151 17*s* 10*d* (ii) he has failed to satisfy a judgment obtained against him on January 19th, 1968, by a second limited company in a County Court for the payment of a debt together with costs amounting to £93 5*s*, so as to render himself liable to be excluded or suspended from membership of the Institute or to be reprimanded or admonished. The Committee found that the formal complaint against Michael George Hocknell, F.C.A., had been proved under all headings and the Committee ordered that Michael George Hocknell, F.C.A., of 172 Douglas Road, Surbiton, Surrey, be excluded from membership of the Institute.

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that Robert Kenneth Willey, a Fellow of The Institute of Chartered Accountants in England and Wales, had been guilty of acts or defaults discreditable to a member of the Institute within the meaning of Clause 21 sub-clause (3) of the supplemental Royal Charter in that (A) having accepted the appointment of liquidator or provisional liquidator of a limited company (i) he failed within a reasonable time to answer or take any action in response to letters from the Board of Trade in relation to noncompliance with the provisions of sections 279 (1) and 305 of the Companies Act 1948 (ii) he failed within a reasonable time to answer or take any action in response to numerous letters and telephone calls from one of the creditors of the said company (iii) in a letter dated February 4th, 1968, addressed to the Institute he made a statement that he handed over to a firm of accountants all relevant documents relating to the said company which he knew was untrue; (B) he failed within a reasonable time to answer or take any action in response to two letters addressed to him by an Assistant Secretary of the Institute dated respectively February 14th, 1968 and February 22nd, 1968, so as to render himself liable to be excluded or suspended from membership of the Institute or to be reprimanded or admonished. The Committee found that the formal complaint against Robert Kenneth Willey, F.C.A., had been proved under all headings and the Committee ordered that Robert Kenneth Willey, F.C.A., of 81 Cleeve Drive, Woodlands, Ivybridge, South Devon, be reprimanded.

Findings and Decisions of the Disciplinary Committee of the Council of the Institute at hearings held on July 3rd, 1968

A formal complaint was preferred by the Investigation Committee of the Council of the Institute to the Disciplinary Committee of the Council that a fellow of The Institute of Chartered Accountants in England and Wales was on January 11th, 1968, at a Magistrates' Court convicted on a charge that as liquidator of a limited company he failed to call a general meeting of the said company as soon as the affairs of the said company were finally wound up in spite of being requested to do so by a letter sent by the Board of Trade requiring him to have a final meeting and was fined £50 and ordered to pay ten guineas Advocate's Fee, so as to render himself liable to be excluded or suspended from membership of the Institute or to be reprimanded or admonished. The Committee found that the formal complaint had been proved and the Committee ordered that the member be reprimanded but considered that there existed special circumstances justifying the omission of his name from the publication of the Finding and Decision.

Overdue subscriptions

The Disciplinary Committee of the Council of the Institute heard 146 formal complaints preferred by the Investigation Committee of the Council, each to the effect that the member concerned had failed to pay within four months of January 1st, 1968, the subscription then due and payable by him, so as to render himself liable to be excluded or suspended from membership of the Institute or to be reprimanded or admonished. The Committee, having found the complaint proved in every case:

(*a*) ordered that the following thirty-two members be excluded from membership of the Institute:

Brun, Peter Edward Constantin, B.A., A.C.A., 43 Ladbroke Road, London W11.
Burnage, Charles Churchill Hutt, F.C.A., 120 Foxley Lane, Purley, Surrey.
Burton, John Edgar, F.C.A., Barn House, Heybridge Basin, Maldon, Essex.
Carter, Benjamin Clayton, F.C.A., 1–6 Connaught Place, London W2.
Carver, John Gerald, F.C.A., Fairgreen Cottage, Mere, Cheshire.
Dear, Frank Henry, M.C., F.C.A., 11 Tower Road, Orpington, Kent.
Dyer, John Patrick, A.C.A., 26 River Grove Park, Beckenham, Kent.
Eaton, Edward John, F.C.A., 4,600 East Hastings Street, Burnaby 2, B.C., Canada.
Edington, Frank Ernest, F.C.A., 10310–61, Avenue, P.O. Box 4456, Edmonton, Alberta, Canada.
Evans, Alan John, A.C.A., 6 Willow Bank, Finchfield Hill, Wolverhampton, Staffordshire.
Friends, Robert Laurence, F.C.A., Municipality of Gwelo, Gwelo, Rhodesia.
Fripp, Christopher Alfred, M.A., A.C.A., 2 Balfour Place, London W1.
Garnick, Harry Schmehl, F.C.A., Halstead, Essex.
Godsall, John Francis, M.C., F.C.A., P.O. Box 2567, Johannesburg, South Africa.
Greenhalgh, William Swaby, F.C.A., 208 New Road, Rubery, near Birmingham.
Hardy, John Herbert Miles, A.S.A.A., 1284 Pont Road, Bryanston, Transvaal, South Africa.
Heywood, Geoffrey Roger, A.C.A., 6 Amber Cottage, Coleshill, Buckinghamshire.
Hutton, Thomas William, F.C.A., Mill Erow House, Kirkby Lonsdale, Westmorland.
Irons, Robert John Michael, A.C.A., 'Crosswinds', Western Dene, Hazlemere, Buckinghamshire.
Ivey, Thomas Alfred, F.C.A., 18 Stone Park Avenue, Beckenham, Kent.

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Jones, Ivor Glyn, F.C.A., P.O. Box 1504, Bulawayo, Rhodesia.
Malik, Abdur Rashid, A.C.A., 43 Redclyffe Road, London E6.
Maw, Mowbray Philip Trentham, F.C.A., Bentham House, Purton, near Swindon, Wiltshire.
Morris, Geraint, F.C.A., 8–30 Hotwell Road, Bristol 8.
Morris, James Donald, F.C.A., 16 Market Place, Leek, Staffordshire.
Sarkar, Narendranath, F.C.A., Plot No. 605, Block O, New Alipore, Calcutta 53, India.
Sims Williams, Guy Frederick Sims, F.C.A., 'Woodrow', Windlesham, Surrey.
Thian, Clifford Peter, F.C.A., The Manor, 5 Winifred Road, Parktown, Johannesburg, South Africa.
Ward, Ernest Harold, F.C.A., 19 Broomfield Lane, Palmers Green, London N13.
Watson, Peter, A.C.A., 4 Brooklands Parade, Grotton, near Oldham, Lancashire.
Wilson, Sidney, F.C.A., 42 North Vale Road, Timperley, Cheshire.
Winnett, Thomas William Turvey, F.C.A., 50 Munson Crescent, Scarborough, Ontario, Canada.

(*b*) ordered that two members be excluded from membership unless by specified dates the subscriptions respectively the subject of the formal complaints had been received, and the Committee further ordered that in the event that the foregoing Decisions did not take effect, one member be reprimanded and one member be admonished, and that there existed in the latter case special circumstances which justified the omission of the name of the member from the publication of the Finding and Decision. The two subscriptions were received in the period allowed and the following Decisions have therefore become effective:

(1) Reprimanded –

Marlow, Kenneth Platt, F.C.A., 70 High Street, Pewsey, Wiltshire.

(2) Admonished –

One member.

(*c*) decided that the following six members be reprimanded:

Beresford, John Edwyn Howard, F.C.A., Flat 3, 17 St Catherine's Terrace, Hove, Sussex.
Edgerton, Nigel Arthur, M.A., A.C.A., 6 St Johns Road, Hythe, Kent.
Gupta, Chittajit, A.C.A., No. 1 Bungalow, Third Avenue, Evelyn Lodge, Asansol, West Bengal, India.
Naish, Paul Francis, F.C.A., P.O. Box 478, Terminal A, Ottawa 2, Ontario, Canada.
Savage, John Newall, F.C.A., Hutton Hall Bakery, Penrith, Cumberland.
Vinyaratn, Prayoon, F.C.A., 29 Prasarn Mitr Road, Bangapi, Bangkok, Thailand.

(*d*) decided that of 106 other members, twenty-three be reprimanded and eighty-two be admonished and that no action be taken against one member, and that there existed in each of these cases special circumstances which justified the omission of the name of the member from the publication of the Finding and Decision.

MEMBERS' LIBRARY

The Librarian reports that among the books and papers acquired by the Institute in recent weeks by purchase and gifts are the following:

The Affluent Worker: Industrial Attitudes and Behaviour; by J. H. Goldthorpe, D. Lockwood and others. Cambridge. 1968. (C.U.P., 40*s*.)
The Art of Decision-Making; by J. D. Cooper. 1964. (World's Work, 30*s*).
Auditing and E.D.P.; by G. B. Davis. New York. 1968. (American Institute of Certified Public Accountants, presented, $12.)
The Business of Capitalism; by H. Wincott. 1968. (Institute of Economic Affairs, 40*s*.)
Communicating for Leadership: a guide for executives; by G. de Mare. New York. 1968. (Ronald Press, 63*s*.)
Critical Path Analysis by Bar Chart; by C. W. Lowe. 1968. (Business Publications, 45*s*.)
Developments in Management Accountancy; ed. by J. Batty. 1968. (Heinemann, 55*s*.)
Dividend Record 1967–68. (Extel.) 1968. (Extel Statistical Services, 200*s*.)
Economics for Managers; by E. B. Chalmers. 1967. (W. P. Griffith, 42*s*.)
Experiment in Industrial Democracy: a study of the John Lewis Partnership; by A. Flanders, Ruth Pomeranz and Joan Woodward. 1968. (Faber & Faber, 45*s*.)
Finance of Foreign Trade and Foreign Exchange; by D. P. Whiting. 1968. (Macdonald & Evans, 25*s*.)
Foreign Trade and Foreign Exchange: their theory and practice; by L. E. Walton: 3rd edn. 1967. (Macdonald & Evans, 30*s*.)
Four Centuries of Banking as illustrated by . . . Martins Bank Ltd. by G. Chandler. Vol. I. 1964. (Batsford, 35*s*): Vol. II. 1968. (Batsford, 42*s*, presented by Martins Bank Ltd.)
The G.E.C Bid for A.E.I. (J. Walter Thompson Co.). 1968. (J.W.T., 42*s*.)
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Edinburgh Computer Congress and Exhibition

OPENING the 1968 Congress of the International Federation for Information Processing held in Edinburgh last week, Earl Mountbatten of Burma criticized the use of computer terminology unintelligible to the layman. He felt there was a danger of inventing a complicated new language and emphasized that it was important that the terms used by the physicist and electronic and electrical engineer should be equally well understood by the systems analyst and the programmer, and above all by the user of the data processing system.

Later, Lord Mountbatten toured the Congress exhibition and saw demonstrations of some of the equipment on display.

New computer

The announcement of a new computer – the 1908A – by I.C.L. was one of the highlights of an interesting week. This large-scale computer has been the subject of protracted discussions with the Government for some time and on the expectation of several large orders, I.C.L. have gone ahead with its development which has meant a considerable capital investment.

The new computer will be available in single or twin configurations with a four-way interleaved main store in modules of 128K, 25 bit words with a storage of up to one million words. A 16 word instruction buffer and a 256 word Operand Slave store are developments which will give a greatly increased throughput. The mass store will be constructed in blocks of 512K words and in the twin systems it may be accessed from both processors.

Delivery is expected to commence in mid-1972 and the price will be about £1½ million for the smallest configuration rising to £4–5 million for twin installations.

A mystic demonstration which appeared to herald the Dance of the Seven Veils attracted a lot of visitors to the Univac stand but it presented nothing more mysterious than a film showing of Remington computer installations throughout the world. Also on display for the first time in Britain was the UNISCOPE 300 which is a visual display remote communication terminal which can be connected on-line to a real-time central processor. A single unit costs in the region of £7,500, and slave units are available at about £2,500 each.

The latest addition to the range of electronic accounting machines on display was the Litton EBS 1230. This machine has a program which will monitor operator input to prevent data being put into the wrong order, it will read and punch paper tape at a speed of thirty characters per second, produce hard copy at ten characters a second and provide an output tape which can be used for analysis over hundreds of totals. The paper carriage is stationary with the type head moving across the page and the 18-inch-wide feed takes an invoice and ledger card side by side. The price is quoted as £8,750, complete with a customer's own programs.

Lord Mountbatten on the I.C.L. stand at the exhibition.

Another new addition to the range of visible record computers was being shown for the first time. This was the Burroughs E4000 which is claimed to be suitable for the small to medium-size firm. The type of applications for which this will be used are an integrated stock, invoicing and sales ledger package, management reporting techniques and payroll. The price is from £9,000 to £22,000 depending on the programs and the additional equipment used.

Optical character readers

Also on show were the range of optical character readers, with a brand new one not yet used in this country which will read a wide range of characters. It is priced at £60,000 but will cost about £15,000 more for a handwriting reader.

The type of character most familiar to accountants will be that encoded at the bottom of cheques to show the personalized account number of a company or individual. This is printed in E13B code (a particular form of coding adopted by all banks) and the Farrington Model 730 machine displayed can accept a bound cheque book and, by using an embossed metal plate in the machine, the name of the company or individual and the relevant account number can be printed onto thirty cheques in one operation lasting under one minute.

Seeing the wide range of computers and peripheral units at the exhibition made the visitor feel that somewhere a limit must be reached, but one of the speakers at the accompanying conference claimed that in the next decade computers would be a thousand times faster than the present ones, with a whole new range of peripheral devices which were not yet designed. Everything would be quicker, bigger, faster – and would become obsolete more quickly.

Notes and Notices

PROFESSIONAL NOTICES

Messrs Baker, Rooke & Co, Chartered Accountants, of London, announce with deep regret the death of Mr Reginald Percy Matthews, J.P., B.COM., F.C.A., on August 5th, 1968.

Messrs Clark, Battams & Co, Chartered Accountants, of 6 Eldon Street, London EC2, announce that Messrs B. A. Breese, A.C.A., and P. J. Willoughby, A.C.A., members of the staff for a number of years, will be admitted into partnership on September 1st, 1968.

Messrs W. Fowles & Co, Chartered Accountants, of Broadstairs, Kent, announce that they have now opened an office at 5 Cecil Street, Margate. telephone Thanet 20636.

Messrs May & Co, Chartered Accountants, Belfast, announce that they will acquire the practice of Messrs E. C. Comerton & Co, Accountants and Auditors, Belfast, with effect from October 1st, 1968. Mr E. C. Comerton, F.C.A., is retiring from public practice but he and Mr T. E. Kennedy, A.A.C.C.A., will be available to May & Co in a consultative capacity.

Messrs Pannell Fitzpatrick & Co, Chartered Accountants, announce that in association with Messrs John Courtney & Co, Chartered Accountants, they have opened an office at 11 Bedford Street, Belfast BT2 7ER, Northern Ireland. The partners are Messrs Arthur S. Courtney, F.C.A., Brian A. Courtney, M.COM.SC., F.C.A., G. Brice Duffin, F.C.A., William J. Leeming, F.C.A., R. Hugh Morcom, F.C.A., and Derek A. W. Hewson, F.C.A.

Messrs Saker & Langdon Davis, Chartered Accountants, announce that they are now associated with Messrs W. H. Cork Gully & Co, Chartered Accountants. Mr Kenneth Cork, F.C.A., joins Saker & Langdon Davis as a partner and Mr Michael Jordan F.C.A., becomes a partner in W. H. Cork Gully & Co. As from August 17th, 1968, the address of Saker & Langdon Davis will be 5 & 7 Eastcheap, London EC3. W. H. Cork Gully & Co are remaining at 19 Eastcheap, London EC3.

APPOINTMENTS

Mr G. Bowden, F.C.A., chief accountant of W. C. Youngman Ltd, has been appointed company secretary; he retains his former position.

Mr J. K. Colley, C.A., group accountant, and Mr J. Corsie, F.C.A., chief accountant of Hawker Siddeley Group, have been appointed directors of Crompton Parkinson Ltd, a Hawker Siddeley company. Mr Corsie becomes finance director of Crompton Parkinson.

Mr J. Colley

Mr J. Gaynor

Mr John Gaynor, A.C.A., has been appointed accountant of W. D. & H. O. Wills Ltd.

Mr G. N. Hunter, J.P., F.C.A., has been appointed a vice-president of the Halifax Building Society.

Mr J. Dudley Robinson, D.S.C., F.C.A., has been appointed to the board of Brown Brothers Ltd.

OBITUARY

George Innes Stewart, C.B.E., M.C., C.A.

We have learned with regret of the death on August 8th of Mr George Innes Stewart, C.B.E., M.C., C.A., who was President of The Institute of Chartered Accountants of Scotland in 1956–57.

Mr Stewart, who was aged 72, qualified in 1922 and after some years in London with Price Waterhouse & Co and Buckmaster & Moore, he returned in 1927 to the Edinburgh firm of Martin Currie & Co, with whom he had served his indentures. He subsequently became senior partner.

During the First World War he served mainly with the Black Watch in France and was twice decorated.

Among his many interests outside the profession, Mr Stewart was a general trustee of the Church of Scotland and a former convener of the General Finance Committee; a former member of the Council of St George's School for Girls, Edinburgh, and a commissioner of the Queen Victoria School at Dunblane. For a number of years he was joint treasurer of the Scottish Unionist Association and was also a former chairman of the South Edinburgh Unionist Association. In 1957 he was awarded the C.B.E. for political and public services in the East of Scotland.

Reginald Percy Matthews, J.P., B.Com., F.C.A.

It is with much regret that we record the death on August 5th, at the age of 68, of Mr Reginald Percy Matthews, J.P., B.COM., F.C.A., a partner in the firms of Baker, Rooke & Co and Annan, Impey, Morrish & Co, of London, and a member of the Council of The Institute of Chartered Accountants in England and Wales.

Mr Matthews was admitted to membership of the Institute in 1924 and

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served on the Committee of the Chartered Accountant Students' Society of London, being honorary treasurer from 1953 to 1958. He was Chairman of the London and District Society of Chartered Accountants in 1956 and a member of the Committee of that Society from 1943 to 1958.

Following his election to the Council of the Institute in December 1958, he served on a number of committees and since June of last year had been Chairman of the Disciplinary Committee.

A Justice of the Peace for Middlesex, he was for twelve years a member of the Friern Barnet U.D.C., of which he was Chairman for two years.

At the time of his death Mr Matthews was a member of the Board of Governors of the City of London College, and Chairman of Epsom Group Hospital Management Committee, having formerly been Chairman of the Kingston Group H.M.C. from April 1964 to March 1967 and a member of the Kingston and Long Grove H.M.C. until April of this year.

In recent years, Mr Matthews became particularly interested in the Leatherhead Theatre and was actively associated with the proposals for a new theatre there.

FREIGHT INTEGRATION COUNCIL

Chartered Accountant to be Chairman

Mr A. G. B. Burney, O.B.E., B.A., F.C.A., senior partner in Binder, Hamlyn & Co, Chartered Accountants, of London, has accepted an invitation to serve as chairman of the new Freight Integration Council which the Government intends to set up.

The principal function of the Council will be to keep under review the application in practice of the Government's policy and arrangements for freight integration and to make recommendations to the Minister of Transport.

It is expected that the other members of the Council will comprise the chairmen of the Railways Board and of the proposed National Freight Corporation, together with two representatives of the transport trade unions and not more than four other members appointed by the Minister.

SELECTIVE EMPLOYMENT TAX

Increased selective employment tax payments come into operation next month, from September 2nd. The increase will raise the rate for men from 25*s* to 37*s* 6*d* a week, for women and boys from 12*s* 6*d* to 18*s* 9*d* a week, and for girls from 8*s* to 12*s* a week. The change will yield an additional £152 million in a full year.

Employers who already qualify for full refund of the tax will continue to have the whole of the tax, including the increase, refunded to them.

In industries not qualifying for full refund, the net burden of the tax for adult part-time employees – those aged 18 or more who are normally employed for less than twenty-one hours a week – will stay as now, i.e. 12*s* 6*d* a week for a man and 6*s* 3*d* for a woman, because the refunds made for these employees will be two-thirds of the tax paid instead of one-half as at present.

Refunds of two-thirds of the tax paid will be introduced from September 2nd in respect of all employees aged 65 or over who do not already qualify for refund. This is intended to forestall any tendency the increased rates of tax might have to discourage the retention of elderly people in jobs in the S.E.T.-bearing trades.

There are an estimated 130,000 men and 60,000 women aged 65 or over employed in the S.E.T.-bearing trades whose employers stand to benefit from the new concession, which is expected to cost about £9 million in a full year.

Also from September 2nd – as announced in *The Accountant* of July 27th – there will be increases in contributions to the Redundancy Fund. Employers' contributions will be increased by 5*d* to 1*s* 3*d* a week for men aged 18 or over, and by 2*d* to 7*d* a week for women aged 18 or over.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Residential Courses

Residential case study courses on computers, management problems and analytical techniques are to be held by The Institute of Chartered Accountants of Scotland during September and October.

The computer case study course is to take place at the University of St Andrews from September 13th to 15th, and is designed for those with responsibility for the implementation of computer systems. The major part of the course will be taken up with syndicate discussions on inventory control, shop-floor loading and scheduling, and manufacturing program control.

The case study course on management problems will be held from September 26th to 29th, also at the University of St Andrews. Its main objective will be to stimulate discussion on common management problems and to illustrate possible solutions from the experience of a modern industrial company whose staff will be presenting the study.

The course on analytical techniques, from October 11th to 13th at Peebles, will illustrate the practical uses of mathematical techniques and the significant factors for deriving maximum financial benefit from their use. Principal techniques to be considered will include statistical analysis, sampling, linear programming, discounted cash flow and present value, and network analysis.

The courses are open to all members of the Institute, members of kindred accountancy bodies and also to non-accountants nominated by members of the Institute. Further particulars are available from the Director of Post-Qualifying Education, The Institute of Chartered Accountants of Scotland, 27 Queen Street, Edinburgh 2.

TENTH INTERNATIONAL CONGRESS OF ACCOUNTANTS

Sydney 1972

In *The Accountant* of August 3rd, page 145, under the heading 'New Zealand – New Post for Society's Secretary', reference was made to the Tenth International Congress of Accountants 'due to take place in Melbourne in 1972'. This was an error for, as noted on page 539 in the issue of April 27th, the Congress is in fact scheduled to be held in Sydney in October 1972. We understand that the Congress Planning Committee, based in Sydney, is well-advanced with its work on the overall 'blue-print' for the Congress, some indication of which it hopes to announce possibly before the end of this year.

FIFTH U.E.C. CONGRESS

Record of Proceedings

About fifty copies of the English version of the Record of Proceedings of the Fifth U.E.C. Congress held in Vienna in 1964 (reported in *The Accountant* of September 5th and 12th, 1964), remain available for purchase at a cost of £3 10*s* per copy.

Readers wishing to obtain copies should write to the offices of The Institute of Chartered Accountants in England and Wales, 56–66 Goswell Road, London EC1.

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The Code on Trial

THE Take-over Panel which came into being on March 27th last when the new City Code on take-overs and mergers was published, assumed responsibility for administering, interpreting and enforcing the new rules. Yet, the new code – like its predecessors – lacks the force of law and the panel has no real power to penalize. All the more reason, therefore, why merchant bankers, stockbrokers and other financial advisers should be guided by the spirit of the code's intentions as much as by the legalistic interpretations of its wording.

When the panel was formed, it was always understood that it would be available for consultation at any stage before a formal offer was made, as well as during the course of a bid. By itself, the code is no more than a memorandum of guidance; it draws its strength from the collective experience and skills embodied in the members of the panel. In recent months the code has been severely tested in practice and some deficiencies have been revealed. This was only to be expected in so new a brainchild, for it could hardly be regarded as an infallible guide to a subject which is in a perpetual state of flux.

The panel's first major public intervention in a bid occurred in June during the struggle between Dufay Bitumastic and International Paints. Then, the basis of Dufay profit forecasts came in for critical examination and comment. Following close on the heels of this episode, the panel came in for a buffeting from Sir FRANK KEARTON – Courtauld's chairman – after it criticized Courtauld's handling of its own bid for International Paints. More recently, the panel's reactions to American Tobacco's partial bid for Gallaher's left a lot to be desired though neither Morgan Grenfell, the merchant bankers, nor Cazenove, the stockbrokers, can be said to have acquitted themselves well in this incident.

Nevertheless, the Take-over Panel has effectively ruled out a repetition of the American Tobacco-Gallaher affair for, as a prelude to an expected revision of the code, it announced last Thursday evening that in future, a partial bidder will have to give notice of his intention in the Press before he begins to deal. The offer to buy must also be open for three working days at a price not less than the partial bid offer less expenses.

In the prevailing climate of opinion it is understandable that the idea of having a statutory body, along the lines of the United States Securities and Exchange Commission, has lately gained ground and last week, Sir LESLIE O'BRIEN, the Governor of the Bank of England, warned the City that if the present arrangements proved inadequate, some form of statutory control was inevitable.

In his letter addressed to the three main financial institutions in the City, the GOVERNOR acknowledged that 'a take-over battle will from time to time be only too well described as such. In these circumstances the urge to take quick and successful action is great. But action in breach of the code is not justifiable in any circumstances'.

That, perhaps, is the crux of the matter – merchant bankers and other advisers are under pressure from their clients to take swift action. The temptation to cut corners or to put their own construction upon the rules as they go along is great. It may also have been exacerbated by a lack of staff or of experience on the part of the panel, for when it was set up five months ago few people envisaged that it would be as active as, in fact, it has been in giving advice on the interpretation of the code. As Sir LESLIE pointed out: 'Most of this work has received no publicity, but I believe it has nevertheless been most useful and helpful.'

It is as yet too early to judge the success or failure of the panel. The experiment is in its infancy and certainly, as a voluntary body, the panel should be able to adapt itself to the ever-changing pattern of bids better than any statutory body. But in the final analysis, the mechanism can only work – in the GOVERNOR'S words – 'if those who have adopted it to regulate their own conduct give it their full and consistent support'. In City parlance, patrician as well as plebeian must learn to toe the line.

Taxes Ahead

THE recent announcement that the National Board for Prices and Incomes had appointed two of its members to be deputy chairmen with consequent increases in their salaries of £3,000, was not the best means of impressing upon the trades unions that the board's pronouncements on wage awards were inspired solely by regard to the national interest. What, however, was not made so clear in the various Press comments was that the recipients would keep barely one-quarter of the increase after tax.

Only a few days earlier *The Times* published figures prepared by the tax division of Unilever Ltd showing a comparison of income tax rates in six major industrial countries which indicated that 'for anyone concerned with rewards for senior industrial executives, the picture which emerges of the U.K. is deeply disturbing'.

This conclusion will hardly come as a surprise to the professionally-qualified readers of *The Accountant*, who are probably better informed on the impact of current income tax rates than any other section of the community outside the Inland Revenue. But these views have been expressed for many years. Indeed, the situation has been worse; one need only look at the figures in the immediate post-war period, or just before Mr THORNEYCROFT took his political courage in both hands and raised the surtax starting-point in 1957. On the other hand, until 1962, capital gains were free from tax, with the result that those with capital could find some relief from the high rates of surtax. Now, for such taxpayers – with the further special charge on investment income – the wheel really has turned full circle.

However, most discussion of the case for lowering tax rates on income is based on the need for relieving earned income. There are precious few votes in speaking up for the rentiers and others with investment income – particularly at a time when a judge can refer to a man with assets a little in excess of £20,000 as 'very wealthy'. No doubt since there must be many people in Britain today whose mortgage liability plus hire-purchase commitments greatly exceed their financial resources, the judge's opinion would attract a lot of support.

A particular difficulty in making out a case for reducing top rates of income tax – political considerations apart – is the problem of making effective comparisons with other countries. Fixed exchange rates and different patterns of living complicate the making of direct comparisons of money incomes. Furthermore, although taxation and Government expenditure may be high, if the expenditure is on a wide range of social services it can be argued that availability of State medical or educational services greatly reduces the income required by the taxpayer if he had to provide for them out of his net income. The fact that some people choose to buy private education or medical treatment is not an argument which has any substantial political impact.

On the other hand, some impact seems to have been made on the thinking of the present CHANCELLOR OF THE EXCHEQUER. In his Budget address he observed that there is strong evidence that the taxpaying public would prefer to pay taxes at the point of sale rather than through deductions from the pay-packet. Then, on the issue of disincentives, while he felt that there might be 'more allegation than reality' he was moved to observe that 'the mere fact that it is so widely believed is of itself significant' and therefore 'further substantial increases in taxation on earned incomes could well have a stultifying effect on the development of the economy'. Finally – and significantly – Mr JENKINS conceded that U.K. taxation of higher earned incomes 'may, indeed, be too high' when compared with 'successful competitive economies overseas'.

But any satisfaction derived from what may be assumed to represent official thinking on the subject, is rapidly tempered by the constraints imposed on any future CHANCELLOR by prospective increases in public sector expenditure. It is, for example, a salutary exercise to consider what tax rates on incomes and outlay would be but for the selective employment tax and recent increases in national insurance contributions. The latter tax, in particular, is seriously regressive.

If Britain's economic growth were ever to attain the rate achieved by the annual increase in public sector expenditure, then it would be the envy of other nations. In reflecting upon taxes and their effect, too little attention has been paid to the importance of economic growth. A faster rate will not only help cure the balance of payments deficit, but an even greater benefit would accrue to the taxpayer. Conversely, if Britain cannot soon expand her rate of economic growth, then the burdens of the tax system are likely to be intensified. Unfortunately, no politician in the twentieth century ever made a reputation by saving taxpayers' money. It is certainly too much to hope that the last has been seen of big spenders.

Current Affairs

New Revenue Concessions

EARLIER this year the Accountants' Joint Parliamentary Committee submitted a lengthy memorandum of queries, anomalies and obscurities in the Finance Acts to the Chancellor of the Exchequer (see *The Accountant*, March 23rd). Since then the submissions have been discussed with representatives of the Board of Inland Revenue, and the Board have now authorized the publication of the statement, reproduced at pages 242 to 245 of this issue, which resolves many points of difficulty in taxation.

A particular instance concerns the rule which attributes to a person the powers of his 'associates' when considering control of a close company, with the bizarre result that if two brothers each tread a path through life far removed from the other and each controls a company, then those companies are deemed to be associated, with loss of 'shortfall' abatement. The newly-published concession obviates this type of anomaly except where there is a substantial trading interdependence.

The terms of the statement pre-suppose acquaintance with the passages in the statute book referred to. Thus the opening profits tax concession relates to the rule which required profits on long-term contracts to be brought into account in the periods over which they accrue. Another concession modifies the rigours of dividend-stripping computations. However, some of the interpretive rulings favour the Inland Revenue, as instanced by the rule for measurement of the abatement of investment income in the context of the close company shortfall 'required standard' where the alternative to the £200 maximum is now seen to be 10 per cent of the 'estate or trading' income as reduced by the corporation tax thereon.

Either way the work of the A.J.P.C. is equally welcome as a contribution towards that certainty commended as a canon of taxation because it obviates the niggling suspicion that some other taxpayer receives more favourable treatment. The statement will doubtless be studied by inspectors also, although it is announced that 'shortfall' cases already settled will not be re-opened to take account of the abatement point mentioned above.

Auditors' Reports

IN February 1966, the Council of The Institute of Chartered Accountants in England and Wales issued a statement on auditing entitled 'Qualifications in Auditors' Reports', a document which, we said at the time (*The Accountant*, February 12th, 1966), should be a shot in the arm for timid auditors. Then earlier this year, a further statement appeared on the form of auditors' reports appropriate for use in the light of section 14 of the Companies Act 1967. This second document, which was reproduced in *The Accountant* of January 13th last, did not deal with circumstances in which it might be thought necessary to introduce qualifications into the report, so now the

Council have combined the two into one comprehensive statement called 'Auditors' Reports: Forms and Qualifications' which is reproduced elsewhere in this issue.

The text is in two parts: the first lays down principles, and the second demonstrates their applications. The essential difference between the streamlined present-day report and its, by comparison, cumbersome predecessor of only a few years ago, is that on certain matters the absence of comment is regarded as the equivalent of a positive statement. For example, it is not necessary to say so if proper books have been kept but it is necessary to say so if they have not been kept. The Council explains at some length the circumstances in which qualification is mandatory and illustrates how such comments should be expressed.

Lloyd's Heaviest Loss

HURRICANE Betsy and all the other hazards of 1965 cost underwriters at Lloyd's more than £500 million in claims. The 1965 account, which was closed at the end of last year, resulted in an overall loss for the market of £38 million, representing 8·21 per cent of premium income. Losses in the marine account were nearly £20 million, and in the non-marine account they were £22·6 million. It was left to the aviation market to contribute a small profit, of £1,700,000 – representing 5·80 per cent of premium income – and the U.K. motor account to make £1,600,000, equivalent to 6·08 per cent of premium income.

This is the heaviest loss in the history of Lloyd's. Had it not been for hurricane Betsy, which is estimated to have cost the Lloyd's market about $100 million, underwriters might have about broken even.

Devaluation also contributed to the overall loss. Although it came near to the end of the year when the account was about to be closed, there were still considerable outstanding claims then (which have since been reinsured in the 1966 or 1967 account), and the effect of devaluation was to increase the allowance which had to be made for them by 16⅔ per cent. Lloyd's U.S. and Canadian funds are kept in their respective currencies until the close of the underwriting year. But as the results of these two countries produced losses overall, devaluation increased the overall cost of the losses.

Whilst U.S. business has been going through a bad patch, and a number of companies have ceased to write business there, Mr Ralph Hiscox, O.B.E., Chairman of Lloyd's, announcing the results on Friday of last week, said that U.S. business had been profitable for Lloyd's in the past and he was convinced it would be profitable again in the future.

The 1966 account looks more encouraging and possibly 1967 could be better than that. Although there is still a long way to go to reasonably profitable underwriting, it looks as though the corner may have been turned.

Company Profits

THE latest quarterly statistics of company profits from the Statistics Division of the Board of Trade are based on the published accounts of 631 quoted public companies with accounting years ending on April 6th, 1967, or later. Although the accounting dates vary, the official report in the *Board of Trade Journal* for August 9th, states that the accounts can be taken to represent 'roughly average experience' during the calendar year 1967. They are, in fact, about one-third of all the public quoted companies engaged in manufacturing and distribution whose accounts are analysed by the Board of Trade annually.

The accounts disclose a significant improvement in profits of 7 per cent over the previous year, the latest figure totalling £1,313 million. The report notes that this upward trend is a continuation of the trend observed in the previous quarter, when company profits rose by 4 per cent. Among the more significant increases were 35 per cent for the clothing group, 29 per cent for construction, while vehicles and chemicals were 13 and 11 per cent higher, respectively. It is evident that the upward trend of profits is beginning to accelerate and, in fact, this latest recorded increase is the highest in the quarterly figures for two years.

Depreciation provisions were significantly higher at £399 million in 1967 compared with £370 million in the previous year. Tax appropriations were substantially lower at £376 million, compared with £467 million. In the current year £368 million compared with £224 million in 1966 was absorbed in dividend distributions; but of this sum the net dividends in 1967 were lower than in the previous year at £216 million compared with £224 million.

It is also noteworthy that almost 60 per cent of the companies incorporated investment grants in their accounts. The majority of these, i.e. 241 out of 378 companies showing such figures, deducted the value of the grant from their expenditure on the relevant tangible fixed assets. The remaining 137 companies showing investment grants in the accounts included the grant under reserves or transferred them to the profit and loss account, tangible fixed assets being shown at cost. Additions to reserves on account of investment grants amounted to almost £60 million.

Hopeful O.E.C.D. Outlook

THE uncertainties of the economic outlook, whether domestic or overseas, are seldom such as to encourage optimism about the future. Far too many hopeful forecasts have been dashed in recent years for the average citizen to rely on economic prognoses, whatever their source. A good illustration of this was provided by the speed with which the £80 million external trade gap in July dissipated the euphoria created by the cheering figures for the previous month. Nevertheless, some assessment of the future is necessary and the latest issue of *Economic Outlook* (No. 3), prepared by the Organization for Economic Co-operation and Development (H.M.S.O., price 26*s*), provides some sensible comment and encouraging findings.

On the British scene the report takes the view that 'there should be a major improvement in the British balance of payments over the coming year'. This is after taking into account the possible consequences of American fiscal policy to restrain the inflationary pressure so evident in recent months. Thus in its discussion of the United Kingdom economy the report makes the point that while an 'improving foreign balance should ensure continued expansion of activity, [it will be] at a substantially lower rate than in the first half of this year'. Even so, the careful assessment of current developments makes it clear that the Government cannot hope for any early relaxation of the present restraints.

On the state of affairs in France following the recent political and industrial unrest, the report has quite a lot of interesting comment to make. The findings are more optimistic than the foreign observer might have been led to expect from newspaper comment. The wage increases granted need not generate undue inflationary pressure since there is considerable excess capacity in the French economy. As far as the future

This is My Life

by An Industrious Accountant

AS instructed by the managing director I made an appointment with our auditors to convey to them the feeling of the board on the subject of the unexpected increase in audit fees and the desirability of rationalizing routine work with our internal audit section as a first step to reducing future fees. It was with reluctance that I challenged professional fees, I said, but ventilation of the subject was necessary.

The crusty old senior partner listened in silence, but his thin features quivered in barely suppressed annoyance whenever the word 'fees' was mentioned. The junior partner wore an expression of debonair amusement tinged with polite bewilderment: the effect was excellent and I felt sorry that he hadn't been present at the board meeting to use it on our directors.

He was particularly good when I suggested the possibility of less detailed checking of minor items. They already used random sampling techniques, he remonstrated; statistical correlation factors, new digital sensitivity norms – essentially fundamental attitudes. Any further reduction of work would imperil intrinsic responsibility and jeopardize the trustworthiness of basic client relationships. Doubtless, he indicated, I had explained as much to the board?

His senior had been chafing visibly during this exposition and now he broke in to explain that fees were always liable to escalate. He, too, was faced with rising overheads, rates, replacements, staff training, travelling costs, and so on. Fees were, in fact, held down to an artificially low – indeed, almost an unremunerative – level because of his own success in clamping down on his major item of outlay, his staff salaries. If he had to grant more than the minimum increments this year – and already his scale of rates was below the local average – then the fees must be raised again. The least he expected, he protested, was that as an accountant myself, I should appreciate his problems and show the board the logic of his approach.

Then I, too, began to be conscious of growing annoyance. Why, it was necessary to ask, shouldn't they do their justifying for themselves? Why should I do their explaining for them? I was in the other camp when it came to budgetary control of expenditure. I couldn't serve two masters, despite my sympathies; why couldn't they bell the cat themselves?

The conversational level deteriorated markedly at this stage. Old Crusty, obviously infuriated at the defection of an old and trusted ally in mid-battle, said this and that about people who left 'the profession'. I, in turn, objected to the implication that industry's resistance to unbudgeted cost increases was responsible for the low salary scales of under-paid audit clerks.

On the contrary, I felt that their salaries should be maximized forthwith in the best interests of the profession, and moreover that fees could well be increased proportionately. The labourers were worthy of their hire. But the auditors must themselves lead the attack. What had they to fear? Industry might well grumble but we wouldn't abandon our old professional aides for a hundred measly guineas. Why shouldn't fees be raised on a country-wide basis?

Put like that it sounded damn good. The junior partner moved in quickly to pour oil on the troubled waters. He agreed entirely; his firm had been pressing the same case for years past; we must look to the future and pull together loyally. Meanwhile the inevitable little misunderstanding must be overlooked; cards on the table, yes, but no conflict of basic interests . . . .

We suddenly found ourselves friends again, but alas the original problems were still unsolved. True, Crusty would write a letter about the fees, but it will probably be couched in harmless generalizations. His junior agreed in principle to review the details of the audit programme, but he carefully avoided any plan to discuss it with me. And I can't see their staff salaries being stepped up to celebrate our *entente cordiale*.

of the franc is concerned, a combination of international co-operation and the substantial French reserves should ensure that the authorities can deal with any crisis pending the revival of confidence in the domestic economy.

Policy for Housing

FOR many years, comment the authors of a new Institute of Economic Affairs' publication *Choice in Housing* (63*s*), 'housing in Britain has been shot through with price controls, fiscal incentives and subsidies, disincentives to proper maintenance, planning restrictions on new buildings. . . .' They go on to say that the consequences of this medley of *ad hoc* measures which make up British housing policy is that the wealthier citizens in their roles as owner-occupiers are subsidized by the taxpayer while council tenants who are, in general, rather better off than tenants of private accommodation are nevertheless subsidized at the latter's expense, and the private tenant is often subsidized by a landlord poorer than the tenant.

Few of these criticisms will be new to our readers, in particular those in local authority offices whose own Institute (I.M.T.A.) has advocated in evidence to the Prices and Incomes Board a more rational approach to housing finance. In the circumstances the main interest in the I.E.A. report stems from the findings of the large sample survey on consumer attitudes to housing upon which the report is based. It is noteworthy that the I.E.A.'s belief in the selective as against the universalist principle of welfare payments is supported by a majority of respondents. Just over two-thirds of the latter thought that housing aid should be concentrated on the lower income groups. Nearly as many expressed the opinion that any such aid should be given only on the evidence of a means test.

Readers of this journal will be interested to learn that the authors recommend, in effect, the revival of the old Schedule A tax, and there will be few who would contest the view that much of the present anomalous situation in housing finance stems from the abandonment of that tax. On the other hand, the collection costs and, for all practical purposes, the scale of avoidance means that any tax on the owner-occupier would need to be introduced in a different form.

New Revenue Concessions

Some Points for Accountants on the Finance Acts

As a result of representations on the Finance Acts to the Chancellor of the Exchequer and the Board of Inland Revenue by the Accountants' Joint Parliamentary Committee (see The Accountant, *March 23rd, 1968), the accountancy bodies have obtained confirmation or clarification of the attitude of the Board to a number of points which have been subject to uncertainty and the Board have authorized the release of the following statement.*

Finance Act 1965, section 11 (1): Profits tax and corporation tax and Schedule 4, paragraph 14, Finance Act 1937

THE Board of Inland Revenue have advised a change of practice made in order to avoid duplication of assessment in cases where the aggregate net effect of applying paragraph 14 of Schedule 4 to all the types of contract to which it has been applied for chargeable accounting periods ending within six years before the date when the company's trading profits came within the charge to corporation tax has been on balance to attribute to those chargeable accounting periods as a positive element which is a reflection of profits likewise brought in to the computation of the trading profits of later accounting periods for corporation tax purposes. In such a case the company is entitled to ask the Revenue to treat the introduction of the corporation tax and the phasing out of profits tax as special circumstances enabling the normal operation of paragraph 14 to be set aside and the Revenue will accordingly be willing to reopen assessments to profits tax for the relevant accounting periods for the purpose of eliminating the positive elements in question.

Where, on the other hand, the net effect of applying paragraph 14 has been on balance to attribute to profits tax chargeable accounting periods a negative element subsequently reflected in the computation of trading profits for corporation tax purposes, no overall duplication of assessment is involved. Notwithstanding that the profits tax computations have anticipated relief for losses which subsequently reduce corporation tax liability, the Revenue would not, in such a case, seek to reopen the profits tax assessment nor, if it remains open, to depart from the basis adopted under paragraph 14 for previous chargeable accounting periods.

Finance Act 1965, section 24 (7) and Finance Act 1962, section 12 (8)

The Board of Inland Revenue have intimated that in their view these sections do not apply in all cases where assets are transferred to beneficiaries *in specie*. Where assets are appropriated by personal representatives to satisfy a legacy in circumstances where such appropriation requires the legatee's consent, i.e. where the personal representatives do not have (whether by the terms of the will or under section 41, Administration of Estates Act 1925) powers of appropriation without consent, the Revenue are advised that the acquisition of the asset has a contractual basis and is not strictly an acquisition *qua* legatee. In practice, however, the disposal of appropriated assets by the personal representatives to a legatee in these circumstances is not treated as an occasion of charge on the personal representatives provided that both they and the legatee agree that the legatee should be treated as acquiring the assets concerned as legatee for the purposes of both section 24 (7), Finance Act 1965 and section 12 (8), Finance Act 1962.

Where settled property becomes distributable on the death of a life-tenant the remainderman is not regarded as taking the property as legatee but as a beneficiary under a trust and the trustees are charged under section 25 (3). Where, however, a beneficiary who has a life interest in property under a will or intestacy dies before the end of the period of administration, so that the property never becomes settled property, a remainderman who then becomes absolutely entitled to the property is regarded as acquiring it as a legatee.

Finance Act 1965, section 33

The Board of Inland Revenue have intimated that the position where a member of a group sells an asset and another member, not carrying on the same trade, acquires an asset of the same class is covered by paragraph 6 of Schedule 13 to the Finance Act 1965. This provides that all the trades carried on by members of a group are to be treated as a single trade by implication carried on by a single person. If, therefore, the sale proceeds of company A's asset are applied to the purchase of company B's asset, A's gain could be 'rolled over' under this section against the acquisition cost of B's asset.

Finance Act 1965, section 65 and Schedule 17: as amended by Finance Act 1967, section 11 (4)

(i) The Board of Inland Revenue have confirmed that where a subsidiary company pays a dividend to its parent company, part only of which is paid under deduction of income tax (so as to pass up to the parent the benefit of the subsidiary's franked investment income), and the dividend is regarded as paid partly out of pre-acquisition profits, the taxed part of the dividends may be regarded as paid first out of the post-acquisition profits and only as to any balance of the pre-acquisition profits.

(ii) The Board of Inland Revenue have also confirmed that the apportionment of profits or losses of an accounting period for the purposes of paragraph 5 (1) of Schedule 17 to the Finance Act 1965, should normally be made on a time basis, but that if that basis gave a result which was clearly inequitable, they would be prepared to consider some other basis of apportionment.

Finance Act 1965, section 65 and Schedule 17 Finance Act 1967, Schedule 11 (4) Finance Act 1968, section 27: Transfers between associated companies

The Board of Inland Revenue have confirmed that where a holding has been transferred on or after 1960–61 between two associated companies and the two companies were associated before 1960–61, they will regard the transferee as having acquired the holding before 1960–61 for the purposes of section 65 (1) (*b*) Finance Act 1965 so that the section will have no application. In view of section 27 of the Finance Act 1968, it will not be necessary for the third company, that is, the company whose shares are being transferred, to be associated with the transferor and transferee.

Finance Act 1965, section 77 (2) and Schedule 18: Supplementary provisions about close companies

The Board of Inland Revenue have advised that they interpret the term 'the estate or trading income' used in the proviso to section 77 (2) and paragraph 7 (3) (*a*) of Schedule 18 to the Finance Act 1965 as meaning the figure after the deduction of corporation tax.

Finance Act 1965, section 77 (3) and Income Tax Act 1952, section 258: Shortfall in distributions of close company (income tax at standard rate)

The Board of Inland Revenue have advised that only in the case of investment companies (non-trading companies) will expenditure on or towards the repayment of any loan or debt (other than an ordinary bank loan or ordinary trade debt) be treated under section 258, Income Tax Act 1952 (attracted by section 77, Finance Act 1965) as not being applied to the requirements of the business.

Finance Act 1965, section 77 (6): Interpretation of 'rateably' in penultimate line

The Board of Inland Revenue have given the accountancy bodies their interpretation of the word 'rateably' as used in the penultimate line of section 77 (6). In their view, the first step under section 77 (6) is to apply the restrictions in the proviso; it is not until this has been done that the amount to be deducted from the distributions for the later period is known. The next step is to make the deduction (restricted if necessary) proportionately from the various distributions, other than excess directors' remuneration, for the later accounting period. This, of course, will only have any significance if the distributions (other than excess directors' remuneration) for the later period fall into two different income tax years (possibly with different tax rates) and the deduction to be made is less than the total amount of those distributions. So far as the shortfall brought forward is concerned there is no question of any restriction as a result of our interpretation of 'rateably'.

Any amount which cannot be deducted on this basis will be carried forward to subsequent accounting periods. An example may help:

	£
Accounting period to December 31st, 1967 – shortfall assessment	10,000
Accounting period to December 31st, 1968 – excess directors' remuneration	7,000
Interim dividend February 1st, 1969	3,000
Final dividend June 1st, 1969	3,000
Required standard	9,000

The deduction under section 77 (6) would be limited to £13,000—£9,000=£4,000 of which £2,000 would be allowed against the 1968–69 dividend and £2,000 against the 1969–70 dividend. There would be £6,000 (£10,000—£4,000) shortfall to carry forward.

If the required standard had been £5,000, the deduction would have been limited to £13,000—£7,000=£6,000. This would cover both the dividends in full, and 'rateably' would have no significance. There would be £4,000 shortfall to carry forward.

Finance Act 1965, Schedule 18, paragraph 12: Cessation of trade and liquidations – close companies

The Board have advised that they are prepared to examine cases of reorganizations carried out entirely for bona fide commercial reasons in order to see whether any relaxation of paragraph 12 and, where relevant, paragraph 13 can be given. For this purpose full information about any reorganization (whether proposed or already carried out) where the point may arise should be given to the Inspector of Taxes when dealing with the tax liabilities of the company or when the question of the application of paragraph 12 to a proposed reorganization is raised.

Finance Act 1965, Schedule 18: 'Participator' and 'Associate'

In response to an inquiry from representatives of the constituent bodies of the Accountants' Joint Parliamentary Committee as to how far the rights and powers of a person's associates would be attributed to him in determining whether two companies were controlled by the same persons – and therefore associated – so that no abatement would be allowable to either, the Board of Inland Revenue have replied as follows by letter dated July 25th, 1968:

> 'In practice, we shall not normally seek to attribute to a person for this purpose the rights and powers of his relatives (other than his wife and minor children). If, for example, one individual owned all the shares in company A and his brother owned all the shares in company B, we should not normally contend that B's powers could be attributed to A so that A could be treated as controlling B's company as well as his own. Again, if their father held, say, 20 per cent of the shares in each son's company, we should not normally contend that the powers of the sons should be attributed to him so that he could be regarded as controlling both companies. We should, however, wish to reserve for consideration all cases where there was a substantial trading interdependence between the two companies.
>
> 'Cases where companies would be associated if a person had attributed to him the rights and powers of persons who were his associates under paragraph 5 (*b*) and (*c*) of Schedule 18, Finance Act 1965, will be considered on their facts. There may be some exceptional cases where, without attributing to any person the rights and powers of his associates, two or more companies could be regarded as associated because both are controlled by the same trustee (for example, the trustee company of a clearing bank). We should not regard this fact alone as a ground for treating such companies as associated; but if there were any other connection, past or present, between the companies, we should need to consider the case on its facts. Similarly we should not contend that two or more companies were associated merely because they could all be treated (under paragraph 3 of Schedule 18) as controlled by the same loan creditor, provided that the loan creditor was an open company (or any other bona fide commercial loan creditor, and there was no other connection between the companies).
>
> 'Inspectors of Taxes are being advised accordingly so that open cases can be disposed of; but settled cases will not be reopened.'

Finance Act 1967, section 15: Increase of surtax rates for 1965–66

The Board of Inland Revenue have confirmed that, by the operation of paragraphs 18 (i) and (iv) of Schedule 6 to the Finance Act 1965, any additional surtax for the year 1965–66 which has become payable under section 15 (8) by any person in respect of his interest in a company which is dissolved before September 30th, 1965, will be allowed, where appropriate, as a deduction for capital gains tax purposes.

Finance Act 1967, section 33: Chargeable gains: exclusion of development value of land in Great Britain

The Board of Inland Revenue have confirmed that interest on outstanding betterment levy payable by an individual in full ranks for income tax and surtax relief.

Finance Act 1967, Schedule 10, paragraphs 10 (i) (*c*): Group relief

Although this paragraph requires a claim for relief under Schedule 10 to be made to the Inspector within two years from the end of the surrendering company's accounting period to which the claim relates, the Board have stated that provisional claims will be accepted if the loss of the surrendering company has not been agreed at the expiry of that period.

Finance Act 1967, Schedule 11, paragraph 6: Close company: 35 per cent test for quoted shares

The Board of Inland Revenue have confirmed that the provisions of this paragraph may be treated as having applied from the start of the corporation tax.

Finance Act 1967, Schedule 13, paragraph (5): Shares in close company transferring assets at an undervalue

The Board of Inland Revenue have intimated that, where a close company transfers assets at an undervalue and the amount thereof is treated as a distribution under paragraph 1 (2) of Schedule 11 to the Finance Act 1965 so that Schedule F tax is paid and the grossed-up amount treated as the income of the shareholder, it is agreed that the acquisition cost of his shares in the company should not be reduced and, in practice, paragraph 18 of Schedule 7 to the Finance Act 1965 will not be applied to such cases.

Finance Act 1968, section 20: Partnerships of companies and individuals

The Board of Inland Revenue have confirmed that this section cannot have the effect of charging more than the individual partners' share of the profits of the basis period even if the aggregate interests of partners during the year of assessment are greater than their share of the profits of the basis period.

Finance Act 1968, section 21: Tax consequences of dealings in know-how

The Board of Inland Revenue have confirmed that where section 21 (8) applies and the consideration received is required to be treated for the purposes of section 21 as consideration for the disposal of the knowhow, this treatment applies only in relation to the consideration received and not to the consideration paid.

Finance Act 1968, section 32: Quoted securities held on April 6th, 1965

The Board of Inland Revenue have confirmed that the rights of election conferred by Schedule 11 to the Act may be exercised where appropriate by the taxpayers' legal personal representatives.

Finance Act 1968, section 37: Gifts forming part of normal expenditure of deceased

The Board of Inland Revenue have confirmed that an 'associated operations' premium which is not regarded as part of the normal expenditure of the deceased under section 37 (2) will be excluded entirely when considering the sufficiency of income under section 37 (1).

Finance Act 1968, section 39: Discretionary trusts

The Board of Inland Revenue have confirmed that the sole purpose of this section is to reverse the effect of the decision of the House of Lords in *Gartside v. C.I.R.*

Finance Act 1968, section 42: Investment income for purposes of the special charge

(*a*) The Board of Inland Revenue have pointed out that relief from surtax for estate duty on accrued income is given automatically for the purpose of the special charge as this is based on the income for surtax purposes.

(*b*) The Board of Inland Revenue have stated that the intention of the words 'otherwise than in partnership' in section 42 (4) (*b*) is to exclude the income of sleeping partners from the exemption but to allow the exemption to apply to the profits of (for example) Lloyds underwriters.

(*c*) The Board of Inland Revenue have confirmed that interest within the scope of section 200 (i.e. interest paid to banks, discount houses, etc.) is allowable against aggregate investment income for the purposes of the special charge if it is not interest paid in respect of a trade (or deductible in computing any other particular item of income).

(*d*) The Board of Inland Revenue have confirmed that in computing investment income for the purposes of the special charge, trustees' expenses are allowable in arriving at the income of a trust.

Finance Act 1968, section 52: Transactions designed to avoid liability

The Board of Inland Revenue have stated that this section will not be applied to a close company having a shortfall which pays additional directors' remuneration or additional dividends to meet the required standard.

Finance Act 1968, Schedule 12, paragraph 22: Non-resident group of companies

Although paragraph 22 (4) has effect only in relation to a disposal after April 10th, 1968, the Board of Inland Revenue have confirmed that if earlier cases arise to which this paragraph would be material, they will be dealt with sympathetically.

Finance Act 1968, Schedule 12, paragraph 23: Supplemental

The Board of Inland Revenue have confirmed that paragraph 23 (2) provides that a company is not to be treated as leaving a group if it is transferred by its immediate parent company to the principal company or to another subsidiary of the principal company.

Controlling Costs of R. & D.

by M. G. WRIGHT, B.COM., F.A.C.C.A., F.C.C.S.

IT has been estimated that the sum of human knowledge is doubling every five to ten years; and at least a part of this knowledge is being 'spun-off' into the development and marketing of new products or improving existing products. Moreover, alongside this ever-increasing range of knowledge is the continuing acceleration in the pace of product development. One has only to think of the time it took to develop the steam engine, then the motor-car, then the aeroplane, and latterly the computer. New generations of computers are produced every three to five years and are now of a sophistication undreamed of fifteen years ago.

Risk

Given this environment of rapid change, management is faced with a choice between what must sometimes appear to be two evils. On the one hand it is faced with taking risks with some of the funds of the business by investing them in the search for and development of new products and their consequent marketing. This is a risk because in spite of the money and resources expended upon the search, nothing may result which is of advantage to the business.

It might appear that management would be wise to avoid such expenditures – and therefore the risk – altogether. Superficially such an attitude would appear to be an attractive one, but deeper analysis shows this to be a fallacy, and raises the other 'evil'. For in endeavouring to avoid the one risk management would be subjecting the business to an even bigger and more certain one. This is that competitors who *are* prepared to risk their money on R. & D. will overtake the business in terms of product innovation and know-how.

It is no good either assuming that if all concerns in an industry limit expenditure on R. & D. the risks also can be limited. One effect of technological change is that industrial boundaries are becoming less clearly defined as different technologies develop and cross those boundaries. An industry with high R. & D. expenditure is likely to generate ideas and techniques which are applicable to a range of industries. It is no accident that in the U.S.A. the largest naval ship order ever to be placed was recently awarded to aerospace companies and not shipbuilding companies, and that the aerospace industry is presently challenging the building industry in the provision of homes.

If management is to minimize risk in this area there must be no hiding of heads in sand. A logical policy for planning and controlling R. & D. expenditure must be drawn up which will maximize the possibility of maintaining or improving the company's competitive position. Looking at the problem as a whole it is possible to identify six management decision areas, these are:

(*a*) Within the context of the objectives set for the company, to determine those areas where new development will most assist their achievement.

(*b*) To define what proportion of the company's resources are to be devoted to R. & D.

(*c*) To define the areas of work which are most likely to fulfil those needs, assigning priorities and funds for each.

(*d*) To select R. & D. staff with the right qualities.

(*e*) To exercise control over the expenditures incurred.

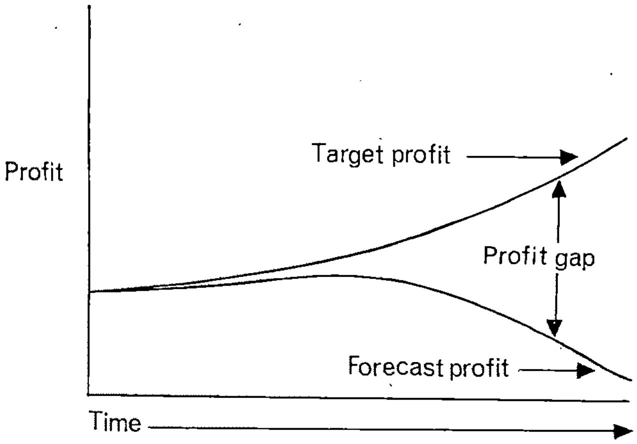
(*f*) To be able to recognize at the earliest stage when to cut off or increase the resources employed on a project.

Related to the overall decision area is the problem of how R. & D. expenditures should be treated in the financial reports and recovered in the selling price of successful developments.

Long-range planning

Setting company objectives

The first decision stage in the formulation of an R. & D. programme must be the setting of the company's objectives. This will be initiated in terms of the level of profitability to be achieved and the volume of capital employed set against the forecast level of profit for the business as it is currently constituted. In graphical form the situation may be looked at as follows:



Products pass through a cycle which consists of the early build-up period, growth to maturity with high profitability, and finally a decline as they are overtaken by other products. Unless positive steps are taken to maintain a range of profitable products, then a 'profit gap' as indicated above will soon become apparent. The purpose of setting company

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objectives is to set in motion the forces that will be able to close the gap and so maintain the required level of profitability.

The determination of the corporate strategy for the business should be the main purpose of the board of directors, and if it does nothing more than achieve that objective it has earned its place in the management team. Corporate strategy will be determined by an assessment of the strengths and weaknesses of the company against those of the environment within which it operates. Whether the strategy devised is one of diversification or specialization, acquisition or internal growth, the important point is that the areas which have to be developed become clearly defined and the requirement for R. & D. ascertained.

Having set the objectives of the business, quantified the effort that must be made to develop the business, and determined the direction those efforts must take, management is now in a position to particularize the steps to be taken in establishing R. & D. effort and the volume of funds that will be needed, together with an assessment of the return that it is hoped will be earned.

R. & D. activities are, as it were, the spearhead of the company in its movement into the future. Whether the company objectives will be reached will depend to a very large extent upon the success of the research undertaken. At the same time ideas thrown up by the research team may have an important bearing upon the long-term plans of the business. For example, a major discovery may transform the prospects of a business and require a complete reorientation of its strategy. To ensure that such opportunities are recognized as commercially viable prospects, it is useful to include in the R. & D. team a representative of the long-range planning group.

Technological forecasting

> 'For companies interested in continued growth and profits, successful new product strategy should be viewed as a planned totality. . . . For its own good, new product strategy should try to predict in some measure the likelihood, character, and timing of competitive and market events.' (Theodore Levitt: 'Exploit the Product Life Cycle', *Harvard Business Review,* November/December 1965, page 93.)

More and more in recent years technology has been the driving force for change and corporate planning has had to take into account the increasing tempo of that change. If technology has a significant effect upon the future of the business then a prerequisite for good planning is a forecast of the rate and direction of technological change. From this need has arisen new techniques of technological forecasting.

There are, of course, many uncertainties surrounding such forecasts, but

> 'To be useful [they] *do not necessarily need to predict the precise form technology will take in a given application at some specified future date.* Like any other forecasts their purpose is simply to help evaluate the *probability* and *significance* of various possible future developments. . . .' James Brian Quinn: 'Technological Forecasting', *Harvard Business Review,* March/April 1967, page 89).

The field of technological forecasting has advanced considerably since the Second World War and a singularly comprehensive and authoritative review of concepts and techniques on a world-wide basis is given in *Technological Forecasting in Perspective*, published by the O.E.C.D., Paris, 1967. In his preface to the book Thorkil Kristensen, Secretary-General of O.E.C.D., comments on the importance of this development in the following words:

> 'the rapid growth of opportunity offered by the many advances in science and technology necessitates a high selectivity on the part of the decision-maker both at the level of the individual firm and on a national scale. *Choice between alternative paths may make all the difference in competitive performance*' (present writer's italics).

How much to spend?

A critical decision of management is the level of spending on R. & D. Too often that decision seems to be based on 'What can we afford?' rather than 'What will be the return?' The attitudes of members of the R. & D. staff themselves is also somewhat ambivalent in this respect. As one commentator has observed:

> 'There seems to have been an unwillingness on the part of some members of the scientific community to face up to the fact that industrial research expenditure should produce economically useful results.' (Maurice S. Newman: 'Equating Return from R. & D. Expenditures', *Financial Executive,* April 1968, page 26.)

There are, of course, difficulties in measuring the return on R. & D. expenditures. Nevertheless if management is to exercise a meaningful control of R. & D. an attempt at measuring returns must be made. This is imperative not least because of the vast amounts of money involved. In the United Kingdom in the year 1964–65, a total of £771·4 million was spent, of which £493·2 million were expended by private industry and the public corporations.

The impact of such expenditures on the individual company is even more critical. Take the case of the Canadian Marconi Co. In 1966 its financial report showed a profit of \$1·6 million after R. & D. expenditure of \$5 million.

Project costs

The costs of projects cannot be ascertained under ordinary cost plus overhead procedures. Out of each batch of R. & D. projects only a few will provide commercially viable products. One cannot say, however, that the costs directly attributable to the successful projects is the sole criterion of cost. Even unsuccessful projects have added to knowledge and directly or indirectly may have contributed to success in other areas or at different times. Returns from successful projects must provide a sufficiently adequate return on the investment in *all* R. & D. projects.

Relationship between research and increases in sales

In his article quoted above, Mr Newman refers to a mathematical approach to determining the increase in sales, and therefore profit, that results from a given level of expenditure on R. & D. Based upon United States industry total figures, an equation was built up expressing the underlying economic relationship between R. & D. expenditure and consequent sales. Using multiple regression analysis, the programme was used to find the best fit of an equation of the following form where y is the dependent variable (sales) and $x_1, x_2, \ldots$ are independent variables (R. & D. expenditure):

$$y=B_0+B_1x_1+B_2x_2+\;.\;.\;.\;+B_{n-1}x_{n-1}$$

The objective of this analysis was to identify the value of the sales increase which could be attributed to the R. & D.

expenditure. Using formulae derived from the above analysis it is possible to estimate what the total increase in sales is likely to be, given a particular year's R. & D. expenditure. From this an estimate of the resulting increase in profit can be made since, if profit represents a given percentage of sales, then this percentage can be applied to the sales increase forecast.

A further refinement can be added: expenditure on R. & D. is an investment of the company's funds in the same way as a capital investment project and should be subject to the same method of investment appraisal, for example by the use of D.C.F.

Attempts to measure the effectiveness of R. & D., such as that outlined above, can at best of course be only approximations to the facts. As mathematical techniques become more sophisticated, however, it will become possible to approach closer to the truth. The available steps, uncertain as they may be, will at least prevent management decisions being made completely blindly.

Defining areas of work

With a knowledge of the company's objectives and therefore of its commercial requirements, the volume of funds to be made available, and the ability to provide some ranking of return, management's task is now to establish the priorities for the work that has to be carried out.

The process of establishing these priorities provides the opportunity to marry the scientific expertise of the research staff with the commercial priorities demanded by the development of the business. The process of selection should therefore be carried out by a group composed of both scientific and commercial staff, together – it is to be hoped – with the financial staff in order to provide some quantitative assessment of the likely outcome of the decisions being taken.

Commercial urgency

The pattern of R. & D. projects may be dictated by immediate commercial urgency, for example, to fill a gap in the product range. In setting the company objectives and determining the strategy by which these will be accomplished, management has set a level of urgency for the various projects that will be undertaken. The strategy itself will have been defined only after consideration of likely technological developments and the pattern of change in demand caused by it, as well as by changes in the economic and social environment. Ultimately the priority assigned to R. & D. projects must be related to profitability.

General and applied research

One of the major determinations of effort will be the division of resources between general and applied research. The latter is of more immediate consequence from the commercial point of view as it will have an earlier impact upon profitability. The long-term strength of the business may well be dependent, however, upon the fundamental research undertaken. Its benefits are more remote in time and even more difficult to forecast, but it may well be laying the foundation for more directly applicable research work in future years.

Some of the benefits of general research may be reaped by an assiduous attention to published work and other means of ascertaining current research activities on a world-wide basis. One of the objectives of building up an international R. & D. capacity is 'to establish "listening posts" and benefit from differences in research philosophy and approaches'. (David B. Hertz: 'R. & D. as a partner in world enterprise', *European Business*, October 1967). It is often the first person to recognize the *commercial* implications of a new discovery who reaps the greatest benefit.

Qualities required of R. & D. staff

Having determined the objectives of the research effort, the type of project that will be undertaken, and the volume of resources that will be committed to R. & D., there still remains the very critical problem of recognizing the qualities that are required of R. & D. staff and how they will be selected. Such qualities will have a significant effect upon the probability of achieving a high 'fall-out' from a given level of R. & D. expenditure.

An American study carried out some years ago provides some clues to the qualities required. Although set more in the context of the individual R. & D.-oriented company as it exists in the United States the findings, as given in the *Harvard Business Review* for November/December 1965, may have a much wider application. One of the main threads running through the report is the stress laid upon awareness and perception as being the principal qualities. Not only do these qualities relate to the research work itself, but also to the environment within which the business operates. It is suggested that this is, in fact, the distinguishing characteristic between the successful and the unsuccessful person.

Reflections on the character of R. & D. problems and the qualities of the individuals employed in R. & D. support this view. Research does not exist of its own account but for a purpose – that purpose being to extend the product range and improve know-how.

Because of their training and interests there is inevitably a tendency for scientists, physicists, etc., to become absorbed in the problem upon which they are working to the exclusion of all other interests, including the commercial possibilities of their findings. Some of the world's most important discoveries in recent times have not been followed up for years through a lack of appreciation of this factor. It is important that the researcher should be highly aware of what is going on in the world around him and to relate what he is doing to the business environment.

In the survey referred to above, the author concludes that 'the most successful individual is high in achievement motivation, low in power motivation, and high in awareness of self, the market and his employees'. When selecting the staff for R. & D. and particularly at project-leader level and above, it is not only professional qualities that must be considered but also personal qualities. A business is geared not only to generate ideas but also to make sure that these ideas are turned into economic realities.

Controlling R. & D. expenditure

In setting the overall amount that is to be spent upon R. & D. and the areas in which work is to take place, management sets the limits to the R. & D. budget. As with other functions in the business, this global budget must then be broken down by activities within the research group and the various categories of expenditure. Expense budgets should be established for the overhead and administrative expenses which will be controlled by a periodic reporting system in the normal way.

The most difficult part of the system is the control of direct expenditure on projects, since the estimates of time and cost for a research project cannot be forecast with any certainty, nor can it be assumed that it will reach a successful conclusion. Nevertheless, it is essential that some control be exercised over costs, not only from the point of view of checking expenditure, but also for the periodic appraisal of projects where one of the elements will be the level of cost, both incurred and prospective, against the proportion of the work completed.

The control function should commence at the point where approval is given for a project to start. Although the specification of the project will be less precise than that for other investment projects, they are not such a blank page as one is sometimes led to believe. Before submitting a proposal it will have been discussed in terms of the objective of the work, the steps necessary to achieve that objective, the resources that each step will require, and the time scale of the project. Only by an appraisal on these lines in conjunction with the commercial requirements of the business and anticipated returns can a rational selection of projects be made.

The appraisal characteristics outlined above provide the basic data for a control system. Set out in a logical form (such as that shown at Fig. 1 overleaf), management is provided with a useful picture of the project as a whole and its related components as well as targets against which actual events can be measured as the project proceeds. The role of project-control in this context is twofold. First, it acts as a control of the level of direct expenditure on the project and sets critical control points which, when reached, call for further decisions on the project to be taken. Secondly, it provides the basic data for the periodic review which decides whether the project should be abandoned or reinforced with further resources to achieve a speedy conclusion.

The critical point is not the absolute level of cost incurred but the level of cost in relation to the progress that has been achieved. The periodic evaluation is based upon three factors – (1) the budgeted level of cost plus authorized amendments; (2) the cost incurred to date and forecast costs to complete; and (3) the proportion of progress made upon the project. Ideally such a report will break this information down into the various stages of the project to give a clearer picture, as shown at Fig. 2 overleaf.

When to 'cut-off' or reinforce

The most profitable businesses are those where management has the ability to recognize, at the earliest stage, poor performance products which must be either revitalized or discarded, and the potential 'high-flyers' which should receive the maximum backing of resources to exploit their potential. The resources of any business are limited and therefore they must be concentrated in areas which are likely to yield the greatest benefit in terms of profit.

This quality is equally important in regard to R. & D. projects. All projects on hand should be subjected to continuous review in order to:

(a) assess, when the project appears unlikely to result in worth-while results, whether the cost of overcoming difficulties will be prohibitive; if this is so the project should be terminated;

(b) recognize discoveries and developments which are going to have significant commercial implications for the company so that at the earliest stage additional resources can be deployed;

(c) assess basic research in relation to the commercial and development needs of the business to ascertain whether ideas are being generated which should be subjected to specific development.

This highlights a point made earlier about the qualities of R. & D. staff – that the higher the commercial awareness in the R. & D. team itself, the more likely is it that worthwhile ideas will be exploited. To reinforce this the periodic review should be carried out by a combination of research and commercial staff.

The review process outlined above should also be concerned with the level of sophistication that is required of a product. Except where it is subject to a specific regulatory body (e.g. A.I.D.) the product should not be developed beyond the commercial requirements.

There is a quite understandable tendency among scientists and engineers to perfect as far as is humanly possible the product upon which they are working. This has two disadvantages: the quality of the resulting product may be much greater than is warranted in ordinary use; and continual refinements and improvements may delay the market launch of the product and interrupt its production through the introduction of modifications.

Accounting for R. & D. expenditure

Apart from the problems involved in management planning and control of R. & D. effort, there are further problems in the way in which the expenditures incurred are to be measured, and recorded in the financial reports and accounts. Some of these problems were recently discussed by J. A. Milburn, C.A., in 'A look at problems in research and development accounting', in *The Canadian Chartered Accountant*, for June this year.

Two principal methods of accounting for R. & D. expenditures are identified:

(a) to accumulate the costs and amortize them over a period of time or number of units of product;

(b) to charge them as an expense directly into the profit and loss account.

Cost capitalized and amortized

R. & D. expenditures are incurred for the benefit of future accounting periods. The advocates of this method therefore argue that the costs of supporting those future activities should be carried forward and charged against the relative years. This concept would certainly seem to fall within the framework of generally accepted accounting practices.

A more detailed analysis of R. & D. expenditures would suggest that the problem is not quite so simple as that. First of all, such expenditures are not necessarily identifiable with products, nor will they necessarily produce any benefit at all for future periods. Analysis of R. & D. costs indicates that they can, in fact, be divided into two major categories:

(a) costs of general research which is not oriented to a particular product;

(b) development and associated research which is designed with a specific product in view.

The underlying assumptions here, as Mr Milburn observes, are that 'General research is of indirect benefit

Figure 1

REQUEST FOR RESEARCH PROJECT APPROVAL

Description of Project...Project No. ....

....

Project steps	Objective	Labour		Material cost	Total direct cost	Capital equipment	Duration and terminal date
		Hours	Costs				
Exploration and definition							
Step I							
Step II							
Step III							
etc.							
Development engineering							
Pre-production model							
Total capital equipment	—	—	—	—		—	—
Total direct costs							
Overheads							
Total cost							

Figure 2

PROJECT EVALUATION REPORT

Project..Project No..

Step	Cost to date	Cost to complete	Estimated cost	Budget cost	Time				Per cent of		
					Elapsed	Est. to complete	Revised total	Budget	Cost incurred	Time taken	Work completed
Step I ..											
Step II ..											
Step III ..											
etc. ..											
Development engineering ..											
Pre-production model ..											

Observations and recommendations:

R. & D. Manager..	Commercial Manager..
....	....
....	....

to the future and cannot be related to specific future periods on a reasonable basis. Specific development, if successful, will be identifiable with specific future benefits'.

It may be, from the psychological point of view, that the carry forward of specific R. & D. expenditures to be amortized in the price build-up of the related product may have adverse results. The development expenditure is a sunk cost and, unless management is aware of the marginal or contribution approach to pricing, the market for the product may be spoilt by an all-out effort to recoup the development costs. The general approach, at least as far as the United Kingdom is concerned, appears to be to recoup development costs over a relatively small volume of sales and only to consider reducing price when this has been done. Perhaps this explains why so many projects never get off the ground.

A better approach would be to see what price the market will bear by proper market research and then set a price to achieve the maximum *contribution.* As long as the contribution is positive, i.e. sales revenue exceeds variable costs, then the product should be continued unless it would use resources that are required for more profitable products.

Cost charged as a current expense

The rationale of this method is that so few R. & D. costs can be related directly to products, and there is so much uncertainty in worth-while results emerging or of being able to recoup costs from those that do, that it is best to treat such costs as expenses in the period in which they are incurred.

To some extent this method makes the overall control of R. & D. costs a much simpler problem. All the costs are accumulated under one heading in the profit and loss account instead of being partly written off and partly capitalized. Moreover, provided R. & D. is treated as a part of fixed overhead in the price-fixing process, the promotion of successful research commercially might be eased.

Financial reporting

The influence that the item can have in the financial reports might give a misleading impression to the shareholders. At present there is no obligation to disclose in a company's financial reports the amount of R. & D. expenditure charged before striking net profit. It is therefore open to the board to bolster present profits at the expense of the future potential of the business merely by cutting down R. & D. expenditure. If this is done, so far as investors are aware there has been no change in the business as far as profitability is concerned, but effectively long-term prospects have been sacrificed for short-term profitability.

TAXATION IN PRACTICE

Close Companies in Liquidation

by B. D. EASLICK, F.T.I.I.

THE advent of corporation tax – and in particular the detailed provisions with regard to close company distributions – have made it imperative that careful consideration be given to the ultimate taxation effect before a company is put into liquidation.

In the first place Schedule 18 of the Finance Act 1965 provides that where a company ceases to trade, or passes a resolution, or an order is made for winding-up, then the 'required standard' in relation to a shortfall assessment is to be increased to 100 per cent for *both* –

(1) the accounting period in which that event occurs; and

(2) any other accounting period which ends in or with the twelve months ending with that event.

It is therefore necessary to consider the date on which one or other of these events is to happen and generally it will be found that the best date to choose is either the accounting date itself, or one about four or five days after. In this way the period for the 100 per cent distribution is limited to twelve months or just over (assuming that the previous accounting period was a normal one of twelve months' duration), instead of a possible period of almost two years at the other end of the scale. This is because the happening of any of the events mentioned above marks the end of an accounting period.

Thus, if a company makes up its accounts to December 31st each year, and the proposed date for liquidation is fixed for (say) January 5th, 1969, the accounting period from January 1st, 1969 to January 5th, 1969, forms the accounting period in which that event occurs, whilst the accounting period from January 1st, 1968 to December 31st, 1968, would be any other accounting period which ends in or with the twelve months ending January 5th, 1969.

The next point to consider is that there will be two distinct aspects of taxation. One will be the liabilities likely to arise for the period or periods up to the date of liquidation, and the other will be the liabilities arising after that event.

Pre-liquidation tax liabilities

Consider, first of all, the position likely to arise up to the date of liquidation.

(a) Chargeable gains

Generally speaking, the realization of the assets of the company would not take place until the liquidation has commenced, but if the company is trading and it is envisaged that it will make a terminal loss, it will be wise to start realizing the assets before the trade ceases. The reason for this is that where a company ceases to trade and incurs a terminal loss, a new accounting period commences and no relief can be given against chargeable gains arising on the realization of assets *after* the cessation of trade. If, however, the gains are made whilst the company is still trading, they can be offset against the terminal loss and tax on the gains will be avoided up to the amount of the terminal loss available.

(*b*) *Income*

If the company is trading and is likely to make a profit, it will be necessary to distribute all this profit before the liquidation commences if a shortfall is to be avoided. This is because the directors cannot recommend a dividend after the liquidation has commenced, and neither has the liquidator any power to declare a dividend for a period prior to liquidation.

Normally, therefore, it will be necessary for the company to continue to exist after the trade has ceased for such period as is necessary to ascertain the final income of the period and to declare a dividend in respect of it before liquidation is commenced. This dividend will then become income in the hands of members who could claim repayment if they were not liable to tax at the full rate.

If the dividend is *not* declared as suggested, a shortfall cannot be avoided. The company has to pay the tax on the shortfall but no income passes to the shareholders although the income will be apportioned to them for surtax if applicable. Where shortfall occurs, the net amount which would have been net income dividend if declared before liquidation, now becomes a capital receipt and will feature in a capital gains tax computation at either the 30 per cent rate or the alternative charge as applicable.

Example	£
Income to liquidation	1,000
Less corporation tax	400
Net	£600

	£
Dividend	600
Less income tax	250
Cash to shareholder	£350

Shareholder liable to surtax on £600

OR:

	£
Net	600
Shortfall tax	250
Net to shareholder as capital	£350

	£
Shareholder receives	350
Less cost of shares	1
Gain	£349 at 30 per cent

Plus shareholders' liability to surtax on £600 apportioned under section 78, Finance Act 1965.

Tax liabilities arising after commencement of liquidation

Consider now the tax liabilities which arise after the liquidation has commenced.

(*a*) *Chargeable gains*

All gains realized by the liquidator will be subject to tax at corporation tax rate and the net amount will then be available for distribution to the members as capital. This will, of course, again feature in a capital gains computation for the members as above, so that an element of double taxation exists in all gains made by a company. If possible, therefore, it is better to arrange that any gains accrue to members direct by transferring assets *in specie* as soon as possible after April 5th, 1965, and well before liquidation date.

(*b*) *Income*

Net income arising to the liquidator is normally distributed to the members as capital but if this is done the same disadvantages will accrue as was explained in relation to income arising before liquidation. The reason being that this net income forms the required standard for 100 per cent distribution and unless this is distributed as income, a shortfall is bound to occur. To overcome this difficulty the Board of Inland Revenue has agreed, by concession, that where this net income is distributed as income to members, they will not also assess the company in respect of a shortfall.

Conclusion

To sum up the position, it has only been possible in this article to cover the broad outline of the general position which applies to accounting periods commencing after April 11th, 1967. The provisions of sections 77 and 78, Finance Act 1965 did not apply to accounting periods commencing before that date provided the company had ceased to trade or ceased the business of holding investments. In all cases, however, it is more important than ever to ensure that careful thought is given to the planning of the liquidation so that appropriate action can be taken at each stage *before* the procedure is put into operation. Failure to do this will only result in needless liability to taxation.

Finance for Partnerships

by OUR INSURANCE CORRESPONDENT

THE need for those who are offered a partnership to find capital is very much less than it was some years ago. Seldom is goodwill worth a substantial sum, besides which incoming partners rarely seem to have the financial resources to provide it. As a result, capital payments for goodwill are fairly rare among the medium to large firms, although it is quite clear that this practice is persisting among a number (but by no means all) of the small to medium firms.

It is not only when entering a partnership, however, that capital may be needed. It may also be required at some stage to finance the purchase of another practice. And, if arrangements are not made to provide an annuity on the retirement or death of a senior partner, capital may be needed to buy part of his interest.

Advance of purchase money

A scheme has now been devised so that, when necessary, capital can be borrowed, although it must be borne in mind that this can prove to be quite expensive. Depending on circumstances, the whole of the purchase money required may be advanced, subject to a minimum of £2,000. A condition normally imposed is that the repayments should not exceed 20 per cent of the applicant's total income. In practice, even this figure may be too high on occasions.

The procedure for repayment is that this is achieved over a period of ten years in equal monthly instalments. Interest is payable six-monthly in arrears, calculated on a day-to-day basis. The actual gross rate which is charged is 4 per cent above Bank rate, and the normal relief of income tax can be obtained on this.

Since the capital is repayable in equal instalments and the interest is payable on the amount outstanding, in general the cost of the operation will be most expensive at the outset when a young man may be least able to afford it.

The cost is increased by the insistence that certain insurance must be taken out.

Life assurance

So far as life assurance is concerned, two birds could be killed with one stone if the loan was allowed to be outstanding for the full period, being repaid by means of a maturing endowment policy. Since, however, the annuity method of repayment is being adopted, it means that separate life assurance is necessary.

As it is, the stipulation is that a whole of life policy must be arranged for a sum equal to the amount of the loan, and the policy has to be effected through an office selected by the brokers. This would appear chiefly to be a means for supplementing the broker's remuneration. After all, if it is only the risk of premature death which is of concern to the lender, it would be very much cheaper for a young or relatively young man simply to take out term assurance for the period of the loan, or even term assurance for a diminishing sum assured. As it is, he has to take out whole of life assurance which he can possibly ill afford if he has already made his life assurance arrangements. Admittedly, when the loan has been repaid, the policy will become his own property (which he could convert to a paid-up basis), but even so he may not need this additional cover for which he will have paid.

Additionally, it is stipulated that sickness and accident insurance, with weekly benefits equal to the cost of the repayment, must be taken out.

Whilst the whole of life premiums qualify for the customary two-fifths relief of income tax, within the statutory limits, no relief can be claimed on the sickness and accident insurance premiums, since there is no cover against death under the policy.

Partners' consent

The procedure for obtaining a loan is that, prior to an application being considered on status and medical grounds, an application fee of fifteen guineas has to be paid – and this is returnable only in the event of the application being turned down on medical grounds.

If, however, an offer is made and is accepted, a formal agreement is drawn up and the existing partners are required to give their consent and accept the borrower's irrevocable authority to make the necessary payments of capital, interest and insurance premiums out of his share of the profits during the existence of the loan.

Further overriding stipulations are that anyone wishing to borrow in this way must be at least 25 years old, and have been qualified for a minimum of two years; and the firm must have been established for ten years or more, having a minimum of three partners.

Whilst some of the terms may appear to be harsh, at least there is no redemption fee. Should circumstances permit, the loan can be repaid without penalty, provided notice of one month is given in writing.

Auditors' Reports – Forms and Qualifications

The Council of The Institute of Chartered Accountants in England and Wales has issued for the guidance of members the following statement on forms of, and qualifications in, auditors' reports made under the provisions of the Companies Acts 1948 and 1967. The statement revises and consolidates Statements U 6 and U 8 issued in February 1966 and January 1968 respectively.

References throughout are to the Companies Act 1967 unless otherwise indicated.

PART I – PRINCIPLES

General considerations

AUDITORS are required by section 14 (3) to state expressly whether in their opinion the accounts on which they are reporting give a true and fair view and have been properly prepared in accordance with the provisions of the Companies Acts 1948 and 1967. If they are unable to report affirmatively in the required respects they must say so.

2. In the case of a banking, discount, insurance or shipping company which is entitled to avail itself and has availed itself of any of the provisions of Part III of Schedule 2, the auditors are not required to report whether, in their opinion, the accounts give a true and fair view. This dispensation, however, applies only to the consequences of the exemptions from disclosure which are permitted by Part III and does not extend to other matters (for example the overstatement of assets or the omission of liabilities) which, in the auditors' opinion, prevent the presentation of a true and fair view in the generally accepted sense. Therefore if the auditors are not so satisfied, their report must be qualified, because the absence of any comment is equivalent to a positive statement that the accounts show a true and fair view subject to those dispensations.

3. Auditors are required also to form an opinion whether:

(*a*) proper books of account have been kept by the company;

(*b*) proper returns adequate for their audit have been received from branches not visited by them;

(*c*) the accounts are in agreement with the books of account and returns.

It is their duty to report on these matters only if, in their opinion, these requirements have not been complied with. *The absence of any comment in their report is therefore equivalent to a positive statement by the auditors that they have investigated and satisfied themselves on all these matters.* Likewise their report must state, if such is the case, the fact that they have not obtained all the information and explanations which, to the best of their knowledge and belief, were necessary for the purposes of their audit.

4. The auditors have a specific duty to include in their report statements giving the particulars required under certain sections of the Acts if the accounts themselves fail to do so. Such particulars, which are statements of fact rather than opinion, speak for themselves and are not dealt with in this Statement. The relevant sections are:

(*a*) Companies Act 1948:
  (i) Section 196 – Particulars in accounts of directors' salaries, pensions, etc.
  (ii) Section 197 – Particulars in accounts of loans to officers, etc.

(*b*) Companies Act 1967:
  (i) Section 6 – Particulars in accounts of directors' emoluments.
  (ii) Section 7 – Particulars in accounts of directors' emoluments the rights to receive which have been waived.
  (iii) Section 8 – Particulars in accounts of salaries of employees receiving more than £10,000 a year.

5. Some suggested forms of unqualified report are set out in paragraph 16 below.

Circumstances in which qualification is necessary

6. The circumstances which cause auditors to introduce qualifying statements into their reports, *where the matters at issue are material*, include the following:

(*a*) If the auditors are unable to obtain all the information and explanations they consider necessary for the purpose of their audit, for example if they are unable to obtain satisfactory evidence:
  (i) of the existence or ownership of material assets, or of the amounts at which they have been stated on the basis adopted;
  (ii) of the validity of payments;
  (iii) that the books properly record all transactions of the business because the evidence has been lost or destroyed, or is otherwise not forthcoming or has never existed.

(*b*) If in the opinion of the auditors:
  (i) proper books of account have not been kept in accordance with section 147 of the Companies Act 1948;
  (ii) proper returns adequate for their audit have not been received from branches not visited by them;
  (iii) the balance sheet and (unless it is framed as a consolidated profit and loss account) profit and

loss account are not in agreement with the books of account and returns.

(*c*) If in the opinion of the auditors the accounts, though based on proper books of account, fail to give the information required by the Acts; for example, a failure to comply in material respects with any of the specific disclosure requirements of Schedule 2.

(*d*) If in the opinion of the auditors the accounts, though otherwise complying with the requirements of Schedule 2, fail to disclose a true and fair view, for example:

- (i) because in the auditors' opinion they do not conform to accounting principles appropriate to the circumstances and nature of the business;
- (ii) because they are prepared on principles inconsistent with those previously adopted and without adequate explanation and disclosure of the effects of the change;
- (iii) because the auditors are unable to agree with the amount at which an asset or liability is stated;
- (iv) because the auditors are unable to agree with the amount at which income or expenditure or profit is stated;
- (v) because the accounts do not disclose information which, though not specifically detailed in the Acts, is necessary for the presentation of a true and fair view;
- (vi) because additional information given in a note, or in the directors' report, materially alters the view otherwise given by the accounts.

(Notes to the accounts form part of the accounts for the purposes of the Acts but disclosure of significant accounting information by way of note on the accounts or otherwise does not necessarily ensure the presentation of a true and fair view.)

(*e*) If, in the case of a holding company submitting group accounts, it is the opinion of the auditors that the group accounts have not been properly prepared in accordance with the provisions of the Acts so as to give a true and fair view of the state of affairs and profit or loss of the company and its subsidiaries so far as concerns members of the company.

7. More than one of the circumstances in which qualification is necessary may be present in any particular case. For instance, where the auditors are of opinion that the internal control is inadequate to the extent of casting doubt on the reliability of the records, they may be unable to satisfy themselves that the records are sufficiently reliable to enable the balance sheet and profit and loss account to show the true and fair view required by law. It will then be the auditors' duty to state in their report to the shareholders that in their opinion books of account have not been properly kept, together with any other necessary reservations which may, in exceptional circumstances, be to the effect that they are unable to form an opinion on the balance sheet and profit and loss account. (See paragraphs 21 and 22 of Statement on Auditing No. 1 [*The Accountant*, August 19th, 1961].)

Principles of qualifying reports

8. A qualified report is not normally necessary unless the amounts at issue are material. If a qualified report is called for the auditors must decide:

(*a*) to which specific matters their reservations apply;

(*b*) whether they actively disagree, or on the other hand lack sufficient evidence to enable them to form an opinion, as regards material items in the accounts;

(*c*) whether, in either event, the matters in question are so material as to affect the presentation of a true and fair view.

If, for instance, the items in doubt or disagreement are limited, that is, not so material that doubt is cast on the view shown by the accounts as a whole, the auditors will be able to report that, in their opinion, subject to specific reservations or with specific exceptions, the accounts present a true and fair view (see paragraph 20). There may, however, be cases where the unsubstantiated items, or those in disagreement, are so material that the auditors must report, stating their reasons, either:

- (i) that they are unable to form an opinion whether the accounts present a true and fair view (see paragraph 22); or
- (ii) that in their opinion the accounts do not present a true and fair view (see paragraph 23). A qualification in these terms is made only in extreme circumstances.

9. The Acts lay down no specific requirements as to the manner in which auditors should, where they judge it necessary, qualify their report. This can only be decided in the light of the circumstances of each particular case. It would be undesirable, and this Statement does not try, to suggest standard forms of wording that might be appropriate to the variety of circumstances in which it may be necessary for auditors to give a qualified report. But the guiding principle, that it is the duty of an auditor to convey information, not merely to arouse inquiry, is long-established.

10. Before giving a qualified report auditors should discuss the accounts with the company's management and make their views clear, so that the directors may examine the matter at issue and, so far as they judge practicable and appropriate, take steps to provide any information which is lacking or to amend the accounts in such a way as will enable the auditors to give a report without qualification.

11. A qualifying statement should be direct and informative. It should be so phrased as to leave the reader in no doubt as to its meaning or the view formed by the auditors or the implications for the accounts. It should:

(*a*) be as concise as is consistent with clarity;

(*b*) be specific as to the items and facts and as far as possible the amounts involved;

(*c*) within the limits of the information available to the auditors, make clear its effects on the accounts; and

(*d*) express the auditors' opinions without possibility of misinterpretation.

The object should be to give in clear and unequivocal terms, so far as circumstances permit, such information in augmentation of that provided by the accounts and notes thereto as will, in the auditors' opinion, provide the information required by the Acts and ensure that the accounts will then give a true and fair view.

12. The fact that the auditors have qualified their report normally merits special attention on the part of shareholders and others who may place reliance on the accounts. Prominence may be given to a qualification by placing it at the beginning of the auditors' report, and this practice has been adopted in the examples which follow, but position is

less important than substance and observance of the standards suggested in paragraph 11 above.

13. It must be emphasized that the fact that auditors may judge it necessary to include qualifying statements in their report does not necessarily impugn the financial integrity of a company's directors, who are ultimately responsible for the form and presentation of the accounts and the information they contain. There may, for instance, be factors affecting certain assets or liabilities of the company which give rise to a difference of opinion between directors and auditors as to the amounts at which the relevant items may be fairly stated in the accounts. It is the duty of the auditors to exercise their independent judgement and express their opinion. The auditors' obligation is inescapable. It would be wholly inappropriate, for instance, for auditors to seek to avoid it by resigning before the expiry of their term of office because they are dissatisfied with the position disclosed by their audit.

Consolidated accounts – subsidiaries' accounts audited by other firms

14. In accordance with the terms of section 14 (3), the auditors of a company submitting group accounts must report whether these have been properly prepared in accordance with the Companies Acts 1948 and 1967 so as to give a true and fair view. The special problems which arise for the auditors of the parent company (who are responsible for reporting on group accounts) where the group accounts include material amounts relating to subsidiaries which they have not themselves audited are dealt with in Statement on Auditing No. 5 *Auditors' Reports on Group Accounts* [*The Accountant*, February 13th, 1965], paragraph 2 of which states, *inter alia*:

> 'While it is usually desirable for the holding company's auditors to include in their report, for the information of the shareholders, some such factual statement (where the amounts involved are material) as:
>
> > ' "The accounts of one (or some) of the subsidiaries have been audited by another firm (or other firms)",
>
> this does not relieve them of their obligations. The responsibility for the opinion which they express is theirs and theirs alone, and it is their professional competence and reputation on which the shareholders who appointed them are relying. In the words of the opinion given by Counsel in 1948 and re-affirmed by Counsel in 1965:
>
> > ' "The auditors of the holding company must take responsibility for accepting for the purposes of group accounts the balance sheets and profit and loss accounts of subsidiaries. This may involve either relying upon the reports of the auditors of the subsidiaries or making such inquiries regarding the subsidiaries' accounts as they deem to be necessary. It is for the holding company's auditors to decide, as reasonable men, which course it is necessary for them to take for this purpose".'

Consolidated accounts – qualifying statements contained in the auditors' reports on the accounts of subsidiary companies

15. Paragraph 15 (4) (*d*) of Schedule 2 requires that where group accounts are not submitted any qualifications contained in auditors' reports on the accounts of subsidiaries should be disclosed in the statement attached to the balance sheet of the holding company. If consolidated accounts are prepared the auditors' report thereon should include a qualification in appropriate terms if material reservations have been expressed by other auditors in their reports on subsidiary companies, in so far as such reservations are judged by the holding company's auditors to be material in relation to the consolidated accounts and appropriate adjustments have not been made on consolidation.

PART II – PRACTICAL APPLICATIONS

Form of unqualified report

16. In the absence of any qualifications the forms of auditors' report in respect of accounts for periods ended on or after January 27th, 1968 (i.e. those to which the disclosure provisions of the Companies Act 1967 apply) set out in the next paragraph are considered appropriate by the Council. The notes referred to in (*a*), (*b*), (*c*) and (*d*) below deal with variations to suit particular circumstances and are set out in paragraph 17 below.

(*a*) *Companies not submitting group accounts*
Auditors' report to the members of . . .
(*See note* (*a*)). In our opinion, the accounts set out on pages .... to .... (*see note* (*b*)) give a true and fair view of the state of the company's affairs at . . . and of its profit (*or loss*) (*see note* (*c*)) for the year ended on that date and comply with the Companies Acts 1948 and 1967.

(*b*) *Companies submitting group accounts*
Auditors' report to the members of . . .
(*See note* (*a*)). In our opinion, the accounts set out on pages .... to .... (*see note* (*b*)) together give, so far as concerns members of the holding company, a true and fair view of the state of affairs at . . . and of the profit (*or loss*) (*see note* (*c*)) for the year ended on that date and comply with the Companies Acts 1948 and 1967 (*see note* (*d*)).

(*c*) *Banking, discount, insurance and shipping companies*
Auditors' report to the members of the . . . Bank (*or the . . . Insurance Co etc.*)
(*See note* (*a*)). In our opinion, the accounts set out on pages .... to .... (*see note* (*b*)) comply with the provisions of the Companies Acts 1948 and 1967 applicable to (*banking or insurance, etc.*) companies.

Notes of variations to suit particular circumstances

17. The following are the notes referred to in the forms of audit report set out in paragraph 16 above:

(*a*) If it is desired to refer to the auditors' examination, each of the forms of auditors' report may appropriately commence as follows:

> 'We have examined the accounts set out in pages .... to .... and report that, in our opinion, they ....'

(*b*) The documents to which the auditors' report relates should be clearly identified by reference to the page numbers, or if the pages are not numbered, the word 'accounts' should be replaced by a description, e.g. 'the annexed balance sheet, profit and loss account and notes'. If it is necessary for the auditors to make reference to information included in the directors' report (for example, if the directors have taken advantage of the proviso to section 163 of the Companies Act 1948 to include in their report certain matters which the Act requires to be included in the accounts), the auditors' report should clearly specify the paragraphs of the directors' report which fall within its scope.

(*c*) In certain circumstances, for example where the consolidated accounts disclose a profit but the holding company incurs a loss, it may be convenient to use the word 'results'.

(*d*) If the consolidated accounts incorporate the accounts of material subsidiaries which the auditors of the holding company have not themselves audited, it is usually desirable for them to include a reference to the fact in their report for the information of the members. This may be done by adding an appropriate sentence at the end of the report set out in paragraph 16 (*b*) above. (See the Council's Statement on Auditing No. 5, *Auditors' Reports on Group Accounts* [*The Accountant*, February 13th, 1965]).

Qualified reports – introductory

18. Since qualifications must be expressed in terms chosen to fit the particular circumstances to which they relate, it is impracticable, and could be misleading, to suggest standard forms of qualification. The examples which follow are intended as practical illustrations of the principles described in the first part of this Statement and should be read with this in mind. *It is emphasized that they are not intended, and are not necessarily suitable, for adaptation to and use in other circumstances.* The examples are fictitious and deliberately simplified. In practice, if circumstances call for a qualified audit report they will often be far more complex than the illustrations given, and may necessitate explanation at length to make the position clear. For the purposes of the examples it is assumed throughout that the matters in question are judged to be material.

19. Where the auditors have reason to consider that their report should be qualified, the nature and importance of the items at issue should be assessed in relation to the accounts as a whole so as to determine their significance in judging the truth and fairness of the view presented. Auditors are usually able to report that in spite of the qualifying statement the accounts give a true and fair view in other respects. In the last resort, however, the reservation may be so fundamental as to make it necessary for them to state either that they are unable to express an opinion, or, in extreme cases, that in their opinion the accounts do not present a true and fair view. These situations are considered in paragraphs 22 and 23.

Auditors' report that the accounts present a true and fair view subject to specific reservations

20. The auditors may be unable to obtain all the information which they consider necessary. In such circumstances their report should set out the nature of the information which is lacking and its effect upon the accounts. The facts should be expressed in terms which give as clear an indication as is practicable of the uncertainty which arises from the inadequate information. If, for example, some sections of the company's stock-taking records have been destroyed in error, and after studying such ancillary records and other corroborating evidence as is available the auditors are unable to form a view as to the amount properly to be attributed in the accounts to the stocks affected, their report might be as follows:

> 'Some of the detailed stock-taking sheets relating to stocks held at the balance sheet date have been destroyed. In their absence we have been unable to substantiate the basis of computation of stock amounting to £.... out of the total of £.... at which stock is shown in the balance sheet.
>
> 'Subject to the foregoing reservation the accounts set out on pages .... to .... in our opinion give a true and fair view . . . ' (followed by an appropriate form of wording).

21. In addition there will be cases in which for reasons such as the lack of certain records it will not be possible for auditors wholly to satisfy themselves as to the truth and fairness of the accounts. In such cases it may be necessary for them specifically to refer to those limitations and their report might be as follows:

> 'In the absence of adequate analyses of factory wages we are unable to verify the charge for labour and overhead amounting to £.... included in the additions of £.... to plant and machinery during the year.
>
> 'Subject to the foregoing reservation the accounts set out on pages .... to .... in our opinion give a true and fair view . . . ' (followed by an appropriate form of wording).

Auditors' report that they have been unable to form an opinion whether the accounts present a true and fair view

22. Section 14 requires auditors to report whether the accounts on which they are reporting present a true and fair view. It does not appear to envisage circumstances in which the auditors are unable to form an opinion on the accounts as a whole, so that they cannot positively report one way or the other. Such a situation may arise where considerable uncertainty surrounds an item which is so significant as to affect the accounts as a whole, so that auditors may be obliged to qualify their report in this way. If, for instance, a company holds substantial stocks or other current assets overseas and these are sequestrated or frozen by action of the Government of the territory in question, so that their realizability and ultimate value are uncertain, the auditors may be unable to form an opinion whether the amount at which they are shown in the accounts presents a true and fair view. In such circumstances the auditors' report might read:

> 'Stocks stated at £.... are located in (name of territory) and are at present unrealizable because they appear to have been sequestrated by the provisional Government. It is uncertain whether they will be realizable by the company at the amounts stated, if at all, and for this reason we are unable to form an opinion whether the accounts set out on pages .... to .... give a true and fair view of the state of the company's affairs at . . . and of its loss for the year ended on that date. In our opinion the said accounts comply in all other respects with the Companies Acts 1948 and 1967.'

Auditors' report that the accounts do not present a true and fair view

23. If in the auditors' opinion the accounts as a whole fail to present a true and fair view, it is their duty to report accordingly, giving their reasons. For example, if a com-

pany's assets consist wholly or mainly of shares in another company which is in liquidation, but the investment is shown at cost without provision for any estimated loss and without any other indication of the position, the auditors' report might read:

> 'The shares in PQ Ltd, which is in liquidation are shown in the balance sheet at their cost of £.... but the liquidator has stated that it is unlikely that the company will be able to pay its debts in full, with the consequence that the shares appear to be valueless. For this reason the accounts set out on pages .... to .... in our opinion do not give a true and fair view . . . ' (followed by an appropriate form of wording).

Notes on accounts

24. If a note to the accounts or a reference in the directors' report materially alters the view otherwise given by the accounts, it will be necessary for the auditors to make a detailed reference to the matter in their report. For example, if a note to the accounts indicates that debtors include at least £.... which it is not expected will be recovered but that pending ascertainment of the loss no provision has been made in the accounts, the auditors' report might read:

> 'The accounts make no provision for an expected loss of at least £.... on the debtors referred to in Note ..... With this exception the accounts set out on pages .... to .... in our opinion give a true and fair view . . . ' (followed by an appropriate form of wording).

If, as illustrated in paragraph 23, the item in question is so substantial that doubt is cast on the view shown by the accounts as a whole the second sentence of the above report might read as follows:

> '. . . For this reason the accounts set out on pages .... to .... in our opinion do not give a true and fair view . . . ' (followed by an appropriate form of wording).

Consolidated accounts

25. Circumstances may arise when in the auditors' opinion the consolidated accounts do not give a true and fair view as required by paragraph 18 of Schedule 2 which provides that the consolidated accounts shall comply so far as practicable with the requirements of the Acts as if they were the accounts of an actual company. Accordingly even though the separate accounts of the individual companies in the group do not by themselves call for any qualification of the auditors' reports, qualifying statements may be necessary in the auditors' report on the consolidated accounts if in their opinion appropriate adjustments have not been made. For example, if the parent company manufactures goods for sale by a subsidiary and the inter-company profit on stocks existing at the date of the balance sheet has not been eliminated, the auditors' report might read:

> 'Group profits are overstated by £.... by the inclusion of unrealized profits on products transferred at selling price between members of the group and remaining in stock at the date of the balance sheet. With this exception the accounts set out on pages .... to .... in our opinion give a true and fair view . . . ' (followed by an appropriate form of wording.)

Taxation Cases

Full reports of the cases summarized in these columns will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'

In re Lord Weir's Settlement

In the High Court of Justice (Chancery Division)
June 19th, 1968
(Before Mr Justice Cross)

Estate duty – Settlement – Discretionary trust – For husband and wife generally – Death of husband – Whether whole fund dutiable – Whether duty only on interest arising on husband's death – Finance Act 1894, sections 1, 2 (1) (b), 7 (7).

In 1957 Lord Weir made a settlement of £50,000 on the occasion of the marriage of his daughter to Mr E. B. Hoare. The trust income was to be applied

> 'to or for the maintenance and support or otherwise for the benefit of all or such one or more, to the exclusion of the other or others, of the husband and wife and the children or remoter issue of the said marriage for the time being living as the trustees . . . in their absolute discretion think fit.'

Subject thereto the trustees were to hold the trust fund for the children of the marriage as were living at the end of the trust period, with remainders over.

Mr and Mrs Hoare had no children, and Mr Hoare died in 1961. In the exercise of their discretion the trustees had paid all the income to Mrs Hoare during the joint lives.

The Inland Revenue claimed estate duty under section 1 of the Finance Act 1894, on the whole trust fund as property passing on the death of Mr Hoare. For the trustees it was contended that duty was payable under section 2 (1) (*b*) of the Act, only on the benefit that accrued or arose to Mrs Hoare on the death of her husband because of the cesser of his interest; that the value of the benefit could not be quantified; and that therefore no claim to estate duty could be maintained.

Held: the case was not distinguishable from the *Attorney-General v. Burrell* and *Scott (Lord Cadogan's Trustees) v. C.I.R.* cases, and estate duty was payable on the whole trust fund, though in view of the cases of *Public Trustee (Lord Northcliffe's Trustee) v. C.I.R.* (the *Arnholz* case) and *Gartside v. C.I.R.* his lordship could not find any reason why duty should be payable.

In re Kettle Deceased

In the High Court of Justice (Chancery Division)
July 3rd, 1968
(Before Mr Justice PLOWMAN)

Estate duty – Inter vivos *gift – Shares in English company – Donor domiciled abroad – Bonus issue – Allotment renounced for donees abroad – Donees registered as shareholders – Whether property situate abroad – Whether gift was the shares or the right to obtain them – Whether date as to situation of property is date of gift or of death – Finance Act 1894, sections 1, 2 (1) (c) – Finance Act 1949, section 28 (2).*

The deceased was at all material times domiciled in Canada, and was the registered holder of shares in an English company, Dorlands Advertising Ltd. In March 1963, a renounceable letter of allotment was sent by Dorlands to the deceased in respect of 18,316 ordinary shares, and she renounced the shares in various blocks in favour of three of her relatives, who were resident in Canada. In May 1963, the donees were registered as the holders of the shares. The deceased died three months later.

The Revenue claimed estate duty on the 18,316 shares as property situate in Great Britain and the subject of an *inter vivos* gift within section 2 (1) (*c*) of the Finance Act 1894, and obtained an injunction against Dorlands restraining the company from permitting the transfer of the shares, and from paying any dividends on them, until the question of estate duty had been settled. It was contended for the donees (1) that the subject-matter of the gift was the right to the shares, and that the right was situate abroad; (2) that the relevant date for determining the situation of the subject-matter of a gift *inter vivos* was the date of the death and not the date of the gift; (3) that the gift was exempt under section 28 (2) of the Finance Act 1949; (4) that the injunction should be discharged.

Held: (1) the relevant date was the date of the death; (2) at that date the subject-matter of the gift was the shares registered in this country; (3) estate duty was therefore payable; (4) the question of the date of the subject-matter of the gift did not have to be decided.

Littlewoods Mail Order Stores Limited *v.* McGregor

In the High Court of Justice (Chancery Division)
July 22nd, 1968
(Before Mr Justice PLOWMAN)

Income tax – Trade deduction – Long lease replaced by shorter lease at higher rent – Subsidiary company becomes freeholder – Whether difference between the two rents deductible – Finance (No. 2) Act 1940, section 14 (1) – Income Tax Act 1952, sections 137 (a) (f), 177.

The appellant company carried on a multiple store business and also a mail order business. It had a large shop and offices in Jubilee House in Oxford Street, London, which it occupied exclusively for its trade purposes. Down to December 7th, 1958, the company held these premises under a lease from the Independent Order of Oddfellows, the freeholder. The lease was for ninety-nine years from 1947, so that in 1958 there were eighty-eight years to run. The rent was £23,444 a year.

In December 1958 a wholly-owned subsidiary (Fork) of the appellant company became the freeholder; Oddfellows became the head lessee under a lease for twenty-two years and ten days at a rent of £6 per annum; the appellant company became the tenant of Oddfellows for twenty-two years at a rent of £42,450 a year; and the appellant company's ninety-nine-year lease was surrendered. The results therefore, were that the appellant company remained in occupation of Jubilee House for a shorter term at a higher rent; at the end of twenty-two years its liability for rent would cease; ten days later the Oddfellows lease would terminate; and Fork would then be the unencumbered freeholder.

The rack-rent of Jubilee House was at all material times not less than £60,000 a year. The aggregate of the market values of the appellant company's twenty-two-year lease and Fork's freehold immediately after the above transactions was not significantly greater than the market value of the appellant company's ninety-nine-year lease immediately before the transactions.

It was contended for the Revenue that the difference between the old and the new rents, £19,000, was not deductible in computing the appellant company's profits for tax purposes, because that sum had been spent for acquiring the freehold through Fork, and was not, therefore, spent wholly and exclusively for the purposes of the company's trade. Alternatively, it was contended that the £19,000 was capital withdrawn from the company's business, or was a sum employed or intended to be employed as capital therein. It was contended for the appellant company that the £42,450 was in fact rent paid for the purpose of the business; that it was a sound commercial transaction for the company to pay a higher rent for a shorter period and afterwards pay no rent at all; and that if the £19,000 had to be split from the £42,450, the former sum could not be added back as a trade receipt, because it would have been expended by the company not as a trader but as a property owner. The Special Commissioners decided in favour of the Revenue.

Held: the £42,450 was properly deductible as rent paid for the purpose of the appellant company's business.

Wells *v.* Croydon Commissioners

In the High Court of Justice (Chancery Division)
July 25th, 1968
(Before Mr Justice UNGOED-THOMAS)

Income tax – Non-making of returns – Penalty – Summons received by taxpayer – Non-appearance before General Commissioners – Whether decision to impose penalty invalid – Whether amount of penalties appropriate – Finance Act 1960, section 46 (1).

The taxpayer not having made returns, the General Commissioners issued summonses for him to appear at a meeting called for the purpose of deciding whether penalties should be imposed. The summonses were served, but neither the taxpayer nor anyone on his behalf appeared, and the General Commissioners imposed two penalties of £50 each. The taxpayer had gone abroad a few days before the meeting. His accountants had advised him to do nothing about the meeting, as they would deal with the matter. The accountants duly informed the Inspector of Taxes that the taxpayer was out of the country, and almost certainly the inspector informed the General Commissioners.

The taxpayer appealed against the penalties on the ground that he had not had an opportunity of appearing before the General Commissioners when they imposed the penalties.

Held: there was no ground for interfering with the General Commissioners' decision to impose a penalty; but that the case should be stood over for the question of the amounts of the penalties to be considered.

Finance and Commerce

International Publishing Corporation

NOW that the tale of the upheaval in the boardroom of International Publishing Corporation is more or less a closed chapter in the Corporation's story, it may be timely to take a look at the group's accounts for the year to last February. The report and accounts run to thirty-two pages and there is no doubting the extent and worth of the information provided.

But the matter at issue from the shareholders' point of view was the reduction in profit (and in dividend) and the reason for it. Shareholders are given the plain facts on page four of the report under the heading 'Turnover and trading profit by activity'. This provides turnover and profit figures for seven years but attention is naturally concentrated on the past two years.

On that comparison basis, page four of the report shows clearly enough that there was a general reduction in earnings throughout the group and that in some sectors the fall was accentuated by special factors which are explained in the directors' report. But, special factors apart, it is the general setback that makes most impression when page four is studied.

Lower all round

The figures are given under six heads – newspapers, magazines, business publishing, books (including directories records and prints), printing (excluding newspapers) and other activities (including the new enterprises division). In newspapers, turnover, compared with 1966–67 was up from £51,976,000 to £52,572,000 but profits eased from £5,637,000 to £5,196,000.

In the case of magazines, turnover was down from £47,591,000 to £46,915,000 and profits fell by more than £1 million – from £4,377,000 to £3,320,000. Business publishing turnover was marginally lower at £20,330,000 against £20,519,000, but profits came out at £1,183,000 against £1,695,000. Profits under the books heading were £454,000 down at £304,000, although turnover rose from £11,255,000 to £13,207,000.

The loss on printing rose from £1,889,000 to £2,574,000 with turnover at £17,490,000 against £17,664,000, while in 'Other activities' there was a loss of £189,000 against a profit of £237,000 from turnover of £2,393,000 against £2,251,000.

Comment on the financial results comes first in the directors' report – first, that is, after the report to shareholders that 'On May 30th, 1968, Mr Cecil H. King ceased to be the chairman and a director of I.P.C. and Mr Hugh Cudlipp was unanimously elected chairman in his place'.

Squeezed

Commenting on the heavy fall in profits from printing and publishing – halved profits in point of fact – the board states that advertising revenue was £2 million down in the first half of the year and 'the general tendency for costs to increase continued and was exacerbated by the devaluation of the pound in mid-November'.

Profits were squeezed and the raising of prices for main newspapers and magazines had to be deferred in line with the national prices and incomes policy. The Corporation, however, 'proceeded deliberately with its plan of reorganization and of development into new areas of communications'. Considerable staff and administrative costs have been charged as expenditure in arriving at the trading profit and included £1·08 million 'in respect of development expenditure at corporate level and in the newly created New Enterprises Division and £350,000 for reorganization and moving costs in the Book Division'.

Closure and removal of printing works, and redundancy payments in the Printing Division and other parts of the group totalled £1·13 million. Income from trade investments was reduced largely because of lower dividends received from the Reed Paper Group in which I.P.C. is a substantial shareholder.

Computers

The word 'computer' occurs frequently in the I.P.C. report and there is no doubt that changes within the group involving computer accounting proved expensive last year. I.P.C., the directors' report states, already uses separate computers for management information, production and typesetting, and commercial services, and plans an integrated computer capacity for these functions which it hopes will ultimately be based on British computers.

International Data Highways, a company in the New Enterprises Division, is engaged in the commercial development of computers and other electronic techniques 'to provide up-to-date information wherever it is needed'. In his statement at I.P.C.'s annual meeting, Mr Cecil King commented tartly on the switch to computer accounting in the Paul Hamlyn books company and maintained that 'for some months the Paul Hamlyn business had virtually no accounts department'.

This piece of incidental intelligence adds a little spice to the impression given by the directors' report that the computer god is being worshipped a little too fervently in I.P.C. Even faith has to be taken in small doses for it to be effective. While the pace at which I.P.C. is becoming computerized and electronically orientated is undoubtedly a trend-setting matter, too much too quickly in this direction is not necessarily conducive to early return on the investment involved.

INTERNATIONAL PUBLISHING CORPORATION LIMITED

PROFIT AND LOSS ACCOUNT
year ended 29th February 1968

		£'000	1968 The Group £'000	£'000	*1967 The Group £'000*
Profit from publishing and printing	notes 1, 2, 3 and 17		7,240		*10,815*
Income from short term investment (gross)	note 4		196		*379*
			7,436		*11,194*
Debenture and loan interest payable (gross)	note 5		785		*635*
Trading profit before taxation			6,651		*10,559*
Taxation	note 6		3,023		*4,467*
Trading profit after taxation			3,628		*6,092*
Amount attributable to outside shareholders in in subsidiaries			81		*120*
			3,547		*5,972*
Income from trade investments (gross)	note 7		2,780		*3,447*
			6,327		*9,419*
Amount set aside towards funding past service pensions	note 17		575		*600*
Profit for the year available for distribution (See (a) below)			5,752		*8,819*
Dividends paid and proposed					
Preference dividends (gross)	note 8	714		*714*	
Ordinary dividends (gross)	note 8	6,346	7,060	*7,403*	*8,117*
Deficit (1967 surplus before transitional adjustments)			*1,308*		*702*
Transitional adjustments (due to changes in basis of company taxation)	note 9				*1,170*
Amount withdrawn from (1967 added to) **reserves**			*1,308*		*1,872*
withdrawn by the Corporation		*less* 4,835		*less 3,586*	
retained by subsidiaries		3,527		*5,458*	

(a) The "Profit for the year available for distribution" for 1967 shown above is arrived at before charging income tax of £338,000 on franked investment income of £820,000.

(b) The profit dealt with in the accounts of the Corporation amounts to £2,225,000 (1967 £4,531,000).

BALANCE SHEETS 29th February 1968

		1968 The Corporation £'000	1968 The Group £'000	*1967 The Corporation £'000*	*1967 The Group £'000*
Fixed assets	note 10		41,552		*39,313*
Goodwill	note 11		35,382		*29,809*
Interests in subsidiaries	note 12		90,166		*89,870*
Trade investments	note 13	179	31,486	*179*	*31,501*
Current assets	note 14	9	40,602	*19*	*37,722*
Total assets		90,354	149,022	*90,068*	*138,345*
deduct:					
Current liabilities	note 15	3,837	23,453	*4,893*	*18,673*
Taxation	note 16	178	7,694		*7,431*
Provision for pensions	note 17		3,838		*4,043*
		4,015	34,985	*4,893*	*30,147*
Funds invested		86,339	114,037	*85,175*	*108,198*
Financed by:					
Ordinary capital	note 19	35,250	35,250	*35,250*	*35,250*
Reserves	note 22	29,212	49,185	*34,061*	*50,294*
Interest of ordinary shareholders		64,462	84,435	*69,311*	*85,544*
Preference capital	note 19	9,980	9,980	*9,980*	*9,980*
Interests of outside shareholders in subsidiaries	note 21		1,134		*723*
Debentures and loans	note 23	11,897	18,488	*5,884*	*11,951*
		86,339	114,037	*85,175*	*108,198*

Hugh Cudlipp
Frank Rogers *Directors*

Notes 1 to 23 on pages [262–264] form part of these accounts

INTERNATIONAL PUBLISHING CORPORATION LIMITED

NOTES ON ACCOUNTS

	1968 The Group £'000	1967 The Group £'000
1 Sales		
Amount charged for goods supplied and services rendered		
Newspapers, periodicals and book sales	73,730	70,219
Advertisement revenue	53,019	54,782
Other revenue	9,590	10,090
Total, excluding sales within the group	136,339	135,091
2 Profit from publishing and printing		
The following have been taken into account in arriving at the trading profit for the year:		
Auditors' remuneration and expenses	72	63
Depreciation	2,878	2,581
Exceptional expenditure:		
Redundancy payments	930	105
Book division reorganisation expenditure	350	
Costs arising on closure of printing works	197	
Temporary duty surcharge on imported paper		282
3 Emoluments		
(a) Directors		
Total emoluments of the directors of the Corporation in respect of their services to the Corporation and its subsidiaries		
Fees		1
Management emoluments	304	302
Compensation for loss of executive office	5	
Single premium for pension for retiring director	58	
	367	303
The emoluments do not include any sums received from Reed Paper Group Limited by Mr. C. H. King and Mr. S. T. Ryder		
	£	£
Emoluments (excluding pension contribution) of the Chairman of the Corporation (Mr. C. H. King)	35,500	35,500
Emoluments (excluding pension contribution) of other directors of the Corporation	*No. of directors*	*No. of directors*
Up to £2,500	2	1
£5,001 to £7,500	1	1
£10,001 to £12,500	1	1
£12,501 to £15,000	5	6
£15,001 to £17,500	3	2
£17,501 to £20,000	2	2
£27,501 to £30,000	1	1
	15	14
(b) Employees		
Emoluments (excluding pension contribution) of employees receiving more than £10,000 per annum	*No. of employees*	*No. of employees*
£10,001 to £12,500	10	10
4 Income from short term investment	£'000	£'000
Dividends and interest on quoted investments	18	14
Interest on tax reserve certificates		26
Interest on short term loans, etc.	178	339
	196	379

	1968 The Group £'000	1967 The Group £'000
5 Debenture and loan interest payable		
Long term		
Debentures	331	343
Loans	445	290
Loans wholly repayable within five years and bank overdraft interest	9	2
	785	635
6 Taxation		
The charge is based on the trading profit for the year and comprises:		
United Kingdom:		
Corporation tax	3,118	4,470
Income tax		17
Deferred taxation	118	34
	3,236	4,521
Less: Double taxation relief	22	20
	3,214	4,501
Overseas	109	93
	3,323	4,594
Less: Provisions in prior years no longer required and adjustment of provisions arising from change of corporation tax rate	300	127
	3,023	4,467
7 Income from trade investments		
Income from quoted investments	2,672	3,302
Income from unquoted investments	108	145
	2,780	3,447
8 Dividends		
Preference dividends (gross)		
4 per cent	84	84
8 per cent	630	630
	714	714
Ordinary dividends (gross)		
Interim at 8 per cent (1967 8 per cent)	2,821	2,821
Proposed final at 10 per cent (1967 13 per cent)	3,525	4,582
18 per cent (1967 21 per cent)	6,346	7,403
9 Transitional adjustments (due to changes in basis of company taxation)		
Relief under Section 85 of the Finance Act 1965		1,465
Less: Income tax borne by deduction from franked investment income		338
		1,127
Investment allowance relief on capital expenditure contracted before 17th January 1966		43
		1,170

INTERNATIONAL PUBLISHING CORPORATION LIMITED

NOTES ON ACCOUNTS—*continued*

	1968 Cost	1968 The Group Depreciation	1968 Net Book Amount	1967 Cost	1967 The Group Depreciation	1967 Net book amount
	£'000	£'000	£'000	£'000	£'000	£'000
10 Fixed assets						
Freehold land and buildings						
At cost	11,574	882	10,692	10,822	775	10,047
Construction work in progress	45		45	172		172
	11,619	882	10,737	10,994	775	10,219
Leasehold land and buildings						
Long leases (over 50 years unexpired)						
At cost	11,644	928	10,716	10,923	784	10,139
Construction work in progress	117		117	381		381
Short leases						
At cost	2,010	534	1,476	1,859	463	1,396
Construction work in progress	50		50	11		11
	13,821	1,462	12,359	13,174	1,247	11,927
Plant machinery and other equipment						
At cost	36,865	19,084	17,781	32,961	16,690	16,271
Construction work in progress	675		675	896		896
	37,540	19,084	18,456	33,857	16,690	17,167
	62,980	21,428	41,552	58,025	18,712	39,313
Cost includes assets of certain subsidiaries at valuations made since 1959 prior to their entry into the group as follows:						
Freehold land and buildings	6,583	517	6,066	6,586	451	6,135
Leasehold land and buildings						
Long leases (over 50 years unexpired)	4,411	403	4,008	4,381	343	4,038
Short leases	975	267	708	994	250	744
	11,969	1,187	10,782	11,961	1,044	10,917
The movements during the year were as follows:						
Balances as at 1st March, 1967	58,025	18,712	39,313	54,902	16,851	38,051
Additions – less investment grants £656,000 (1967 £561,000)	4,567		4,567	4,524		4,524
Additions arising on acquisition of subsidiaries	1,224	473	751	66	23	43
Increase arising from devaluation	208	68	140			
	64,024	19,253	44,771	59,492	16,874	42,618
Disposals (including in 1967 £127,000 at cost arising on sale of subsidiaries)	1,044	703	341	1,467	743	724
	62,980	18,550	44,430	58,025	16,131	41,894
Depreciation for the year		2,878	2,878		2,581	2,581
Balance at 29th February, 1968	62,980	21,428	41,552	58,025	18,712	39,313
Contracts for capital expenditure not provided for in these accounts	2,526			1,266		
Capital expenditure authorised by directors but not contracted for	2,032			2,080		

	1968 The Corporation £'000	1968 The Group £'000	1967 The Corporation £'000	1967 The Group £'000
11 Goodwill				
The goodwill appearing in the group balance sheet is stated at cost less amounts written off and includes the excess of cost of shares in subsidiaries over the net book amount of the related assets at dates of acquisition		35,382		29,809
12 Interests in subsidiaries				
Shares at cost	10,609		12,884	
Indebtedness of subsidiaries	79,557		76,986	
	90,166		89,870	

To avoid undue delay the accounts of the overseas subsidiaries of Butterworth & Co. (Publishers) Ltd. as at 31st December, 1967 have been included in these group accounts.

A list of the operating companies of the Corporation is shown on pages 28 and 29*

13 Trade investments

	1968 The Corporation £'000	1968 The Group £'000	1967 The Corporation £'000	1967 The Group £'000
The trade investments appearing in the balance sheets at cost less amounts written off are				
Quoted	179	23,590	179	23,958
Unquoted		7,896		7,543
	179	31,486	179	31,501
They are valued as follows:				
Quoted—at market value	239	53,547	247	43,172
Unquoted—at directors' valuation		8,755		8,088
	239	62,302	247	51,260

If the quoted investments had been realised at their market value at 29th February 1968 the taxation on the capital gain would have amounted to some £4,000,000 (1967 £800,000). Further details of the trade investments are given on page 26*

	1968 The Corporation £'000	1968 The Group £'000	1967 The Corporation £'000	1967 The Group £'000
14 Current assets				
Stocks and work in progress at the lower of cost and realisable value		12,358		9,948
Debtors		26,756		21,874
Quoted investments—market value £144,000 (1967 £231,000)		138		249
Short term loans		488		3,824
Bank balances and deposits	9	862	19	1,827
	9	40,602	19	37,722
15 Current liabilities				
Creditors	31	18,073	27	13,802
Bank loans and overdrafts		1,571		
Debenture interest accrued (gross)	104	107	107	112
Dividends				
Preference accrued (gross)	177	177	177	177
Ordinary—final proposed (gross)	3,525	3,525	4,582	4,582
	3,837	23,453	4,893	18,673
16 Taxation				
Current taxation—corporation tax due 1st January 1969		2,757		3,988
—other taxation	178	2,967		1,707
Deferred taxation		1,970		1,736
	178	7,694		7,431

* *Not reproduced.*

INTERNATIONAL PUBLISHING CORPORATION LIMITED

NOTES ON ACCOUNTS—*continued*

17 Provision for pensions

The estimated current service cost of the new group pension scheme has been charged in arriving at the profit from publishing and printing. The third instalment of £1,000,000 (less anticipated tax relief thereon) towards funding the past service liability of the new scheme, has been set aside this year. The second instalment, which was provided for last year, has been paid to the trustees of the scheme.

All existing pension funds which are being superseded by the group pension scheme have been closed down but final valuations have not yet been received in all cases. Accordingly the actuarial valuation of the new fund to determine the balance of the past service liability which will be met by further annual instalments over the next seventeen years has been deferred. The provision for pensions also includes the estimated amount (less anticipated tax relief thereon) required over that already provided by former group company pension schemes to cover past service of all employees within the group and pensions payable to former employees or their dependants under former arrangements.

18 Overseas currencies

The official rates of exchange ruling at 29th February, 1968 have been used to convert overseas assets and liabilities to sterling with the exception of
(a) trade investments, except to the extent that they have been financed from loans in US dollars
(b) goodwill
which have been converted at rates ruling when acquired.

The trading results of overseas subsidiaries have also been converted to sterling at the official rates of exchange ruling at 29th February, 1968. This has had no significant effect on the profit of the year.

19 Share capital

	1968 The Corporation Authorised £'000	1968 Issued £'000	1967 The Corporation Authorised £'000	1967 Issued £'000
4 per cent cumulative preference shares of £1 each	2,096	2,096	2,096	2,096
8 per cent cumulative preference shares of £1 each	7,884	7,884	7,884	7,884
Ordinary shares of 5s each	35,250	35,250	35,250	35,250
Unclassified shares of 5s each	4,770		4,770	
	50,000	45,230	50,000	45,230

20 IPC share purchase scheme

Included in debtors is £58,000 (1967 £58,000) settled by group companies on IPC Trustees Limited (an independent trustee company) under the terms of the IPC group share purchase scheme.

21 Interests of outside shareholders in subsidiaries

	1968 The Group £'000	1967 The Group £'000
Preference capital	125	125
Ordinary capital and reserves	1,009	598
	1,134	723

22 Reserves

	1968 The Corporation £'000	1968 The Group £'000	1967 The Corporation £'000	1967 The Group £'000
Share premium account				
Balance at 1st March, 1967	22,460	22,460	22,460	22,460
Less: Expenses of issue of loan stock	46	46		
Balance at 29th February, 1968	22,414	22,414	22,460	22,460
Other reserves				
Balance at 1st March, 1967	11,601	27,834	15,122	26,105
Amount transferred *to*/from profit and loss account	*Less 4,835*	*1,308*	Less 3,586	1,872
Surplus (*net loss*) on sale of fixed assets, businesses, shares in subsidiaries and investments		42	35	Less 4
Surplus on debenture redemption	32	32	30	30
Net surplus arising from devaluation		165		
Other movements		6		6
Amount written off trade investments				Less 121
Costs re issue of 5.9% notes in U.S.A.				Less 54
Balance at 29th February, 1968	6,798	26,771	11,601	27,834
Total Reserves	29,212	49,185	34,061	50,294

23 Debentures and loans

	1968 The Corporation £'000	1968 The Group £'000	1967 The Corporation £'000	1967 The Group £'000
Long term				
Secured				
3½% debenture stock 1974/76	1,255	1,255	1,338	1,338
6½% debenture stock 1974/76	479	479	507	507
3½% debenture stock 1983/88	716	716	740	740
6½% debenture stock 1983/88	3,256	3,256	3,299	3,299
7% convertible debenture stock 1969/73		198		289
5.9% notes 1977 $1,500,000		625		536
5.9% notes 1981 $10,000,000		4,167		3,571
Unsecured				
7% convertible loan stock 1987/92	2,488	2,488		
7⅞% loan stock 1987/92	3,703	3,703		
5% loan from an associated company		1,419		1,635
	11,897	18,306	5,884	11,915
Repayable within five years				
Notes $400,000 interest based on New York prime rate		167		36
Other loans		15		
		182		36
	11,897	18,488	5,884	11,951

The debenture stocks of the Corporation are secured *pari passu* by a floating charge on the assets of the Corporation and certain of its subsidiaries and in each case are redeemable between the dates shown, at the option of the Corporation, or by purchases for redemption in satisfaction of cumulative sinking fund requirements in accordance with the trust deed.

The debenture stock of a Nigerian subsidiary £N170,000 (£198,000) is secured by a fixed charge on certain of its assets. In 1969 the debenture stock is convertible on the basis of one ordinary share for each £N1. 5. 0. nominal of debenture stock. Otherwise it is to be redeemed at par in 1973.

The notes payable are secured on the shares of Cahners Publishing Company Inc. and are guaranteed by the Corporation. The 1981 notes are repayable at par by ten equal annual instalments ending on 28th February, 1981 and the 1977 notes are repayable at par by six equal annual instalments ending on 28th February, 1977.

The loan stocks are repayable between the dates shown above at the option of the Corporation. The convertible loan stock may be converted into ordinary shares of the Corporation in 1971 and 1972 at the rate of one ordinary share for each 22/-d. nominal of convertible stock and in 1973 and 1974 at the rate of one ordinary share for each 24/-d. nominal of convertible stock.

The loan from an associated company is repayable by monthly instalments of approximately £20,000.

CITY NOTES

THE July trade figures having stifled hopes of an early Bank rate cut, the stock-market is now left to ponder the point of a longer wait for slightly lower interests and also whether there will in fact be a trade balance improvement of any major proportions by the end of the year.

Immediately after the July trade figures were announced, there appeared to be some inflationary-fear buying of equities on the old basis of what is bad for the economy is good for equities. But some profit taking quickly nipped out the movement.

At the beginning of this week the equity market had, on balance, made little progress since the peak of early May and the increasing emphasis on secondary equities and special situations at the expense of leading index issues has been the feature of the equity market since that time.

While some London stockbrokers still urge all-out equity investment even at the current pitch of prices, there are others who consider that those who bide their time will be able to buy at more attractive prices. Since May there have been two opportunities for that, but buyers have had to move with more alacrity and decision than the average investor shows.

The equity market, in fact, is increasingly becoming more and more a professional's market. It is increasingly dominated by institutional operations and particularly by the operations of unit trusts.

* * * *

SIR LESLIE O'BRIEN'S virtually open letter to the City on the subject of the Take-over Panel, its rules and their observance was written not a moment too soon. It was in marked contrast to the statement by the Stock Exchange Council, particularly from the point that it insisted that the City must operate in the spirit of the panel rules and not necessarily to the letter of them.

Practically every commentator on City affairs has written sometime over the past month or so that, unless the City put its own House in order, then the probability was that the Government would move in and do the ordering. Sir Leslie O'Brien has now made that same point and, of course, has made it with the authority of his position as Governor of the Bank of England.

There should be no more protestations of innocence over the affair which brought matters to their present head. Instead there must be a readiness on the part of merchant banks and stockbrokers to consult the panel before taking any action on borderline matters. There must also be more readiness to interpret rules in a common-sense way than to interpret them technically and to look for loopholes.

* * * *

REPORTS of an intensified credit squeeze by the banks may have been exaggerated but they have considerable substance in so far as the banks are committed to keeping all lending under the devaluation-time ceiling – including export lending. As industrial export achievement improves, naturally the demand for export finance increases and it is not exactly difficult to see how, under such conditions, some potential borrowers will have to go without credit or with reduced credit if export priorities are to be met. The banks have an extremely difficult problem on their hands and must be turning down good lending propositions which would be considered reasonable even by the criteria of credit squeeze conditions in the past. One certain thing is that there is no general recognition of the fact that the closure of the lending ceiling over the top of export lending meant the most severe curb on credit that the banks have ever had to endure. If the curb is to continue at its present tightness non-priority borrowers will be in for a thin time.

RATES AND PRICES

Closing prices, Tuesday, August 20th, 1968

Tax Reserve Certificates: (29.11.67) Companies 4⅜%; 3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966	7%	Oct. 19, 1967	6%
Jan. 26, 1967	6½%	Nov. 9, 1967	6½%
Mar. 16, 1967	6%	Nov. 18, 1967.. ..	8%
May 4, 1967	5½%	Mar. 21, 1968.. ..	7½%

Treasury Bills

June 14 ..	£7	3*s*	9·58*d*%	July 19 ..	£7	2*s*	5·25*d*%
June 21 ..	£7	3*s*	8·57*d*%	July 26 ..	£7	1*s*	2·22*d*%
June 28 ..	£7	4*s*	10·04*d*%	Aug. 2 ..	£7	0*s*	4·48*d*%
July 5 ..	£7	4*s*	9·73*d*%	Aug. 9 ..	£6	18*s*	6·27*d*%
July 12 ..	£7	3*s*	5·60*d*%	Aug. 16 ..	£6	18*s*	1·79*d*%

Money Rates

Day to day ..	5⅞–6 15/16%	*Bank Bills*	
7 days	5¾–6 15/16%	2 months ..	7⅜–7 7/16%
Fine Trade Bills		3 months ..	7⅜–7 7/16%
3 months ..	8½–9%	4 months ..	7⅜–7 7/16%
4 months ..	8½–9¼%	6 months ..	7⅜–7 7/16%
6 months ..	8¾–9½%		

Foreign Exchanges

New York	2·39¼	Frankfurt ..	9·61 11/16
Montreal	2·56 11/16	Milan	1486½
Amsterdam ..	8·68	Oslo	17·09
Brussels	119·70	Paris	11·89⅞
Copenhagen ..	17·98½	Zürich	10·30 19/32

Gilt-edged

Consols 4% ..	53 1/16	Funding 6% 1993	81¼
Consols 2½% ..	34	Savings 3% 60–70 ..	91 3/16
Conversion 3½% ..	47 15/16	Savings 3% 65–75 ..	75
Conversion 5% 1971	92 15/16	Treasury 6½% 1976	95
Conversion 5¼% 1974	90 3/16	Treasury 3½% 77–80	72⅞
Conversion 6% 1972	94 15/16	Treasury 3½% 79–81	69¼
Funding 3½% 99–04	52½	Treasury 5% 86–89	74⅝
Funding 4% 60–90	96 1/16	Treasury 5½% 08–12	73½
Funding 5¼% 78–80	82¾	Treasury 2½% ..	34⅛
Funding 5½% 82–84	81⅝	Victory 4%.. ..	96 5/16
Funding 5¾% 87–91	81⅞	War Loan 3½% ..	47 5/16

MANAGEMENT INFORMATION

Improving Profitability

In many businesses little thought seems to be given to distinguishing between *profits* and *profitability*. The objective of many managements seems to be the maximizing of profit without consideration being given to other factors. While no one decries the level of profit, increases in this level must not be considered without due regard to the impact that it will have upon *capital employed*, and consequently upon profitability.

Take, for example, the figures given below:

AB Ltd

Capital employed	£10 million
Sales	£20 ,,
Profit	£1 ,,

The return on capital employed is $\frac{\pounds1 \text{ million} \times 100}{\pounds10 \text{ million}}$ or 10 per cent. If one now assumes that all three figures are increased by the same amount, say, by 50 per cent, the capital employed would be increased to £15 million, the sales to £30 million, and the profit to £1·5 million. Although the level of profit has increased by 50 per cent, profitability has not increased at all. It is still 10 per cent, i.e. $\frac{\pounds1{\cdot}5 \text{ million} \times 100}{\pounds30 \text{ million}}$. If capital employed had increased by more than the 50 per cent then profitability would have actually fallen.

To improve profitability one must change one of the relationships which make up the profitability ratio. These are the *margin on sales* which on the above figures is $\frac{\pounds1 \text{ million} \times 100}{\pounds20 \text{ million}}$, or 5 per cent, and the *turnover of capital employed* which from the same data is $\frac{\pounds20 \text{ million}}{\pounds10 \text{ million}} = 2$ times.

It will be noted that the latter two ratios when multiplied together give the return on capital employed of 10 per cent. If, therefore, one wishes to improve profitability one must increase either the margin on sales *or* increase the turnover of capital employed by making more intensive use of the assets of the business.

Comparative ratios

There are great difficulties in comparing ratios between different companies let alone between companies in different countries. However, recent evidence suggests that the major reason why many United Kingdom companies have a lower level of profitability than their American counterparts is the way in which the latter are able to service greater levels of activity without a corresponding increase in assets, whether fixed assets or working capital.

An example of this is provided by a recent study of the electronics industries in the two countries which was recently published in *New Technology* (March). Some of the data derived from that study are as follows:

Comparison of Specific Ratios between United Kingdom and United States Companies

	U.S. Companies		*U.K. Companies*	
	Months sales represented by assets	*Times turned over per year*	*Months sales represented by assets*	*Times turned over per year*
Fixed assets	2·4	5·0	3·6	3·3
Current assets:				
Stock and work in progress	2·2	5·5	4·3	2·8
Debtors	2·0	6·0	4·1	2·9

(Source: *New Technology*, Mintech.)

As can be seen, the major areas of difference are in the use made of stocks and work in progress and debtors, where the United States companies seem to be able to make over twice as much use of the amount of capital locked up in those items as do the United Kingdom companies.

The difference in the use of fixed assets is not so great but a 50 per cent higher utilization is still made of investment in those assets. Given the difficulty in making inter-company comparisions, such figures must be treated with some caution, but the magnitude of difference is too great to be ignored.

This ability to obtain the maximum use from the capital employed in a business points the direction that management action should take in improving profitability. Specifically, any clues as to the techniques used in the United States to achieve their utilization levels are of obvious importance in other industrial fields.

Techniques for maximizing asset use

Some of these clues were given in an article ('Slow jet, but fast' by James Ensor) in *The Financial Times* of June 18th. These although dealing broadly with the ability of United States aircraft companies to get planes flying more quickly than in Europe, throw some interesting sidelights on control techniques.

The article is centred around Boeing (which incidentally turns over its stock and work in progress about 4·5 times per year and its debtors nearly twelve times), whose activities are very largely based upon computer control of all operations. So much so that in its commercial aeroplane division alone the company uses some sixty computers, including some of the most powerful.

The reliance of the manufacturing processes on computer control enables a much closer control of activities to take place. Mr Ensor instanced several consequences of this: some three million parts per month are serviced by a store which holds only 400,000 parts at any one time; lead times are so short that if the computer were to break down, the production line would come to a halt in two days; changes in design which would consume 670 man-years are recorded on shop-floor work sheets in two days.

British management must take cognizance of facts such as these, as their ability to compete in the world markets is going to depend more and more upon the ability to match control techniques used elsewhere and to understand the implication that they have for the level of profitability.

Correspondence

Integration of the Profession

SIR, – I would like to attempt to counter some of the arguments advanced by Mr Greener in your issue of August 10th.

He appears to base his opposition to the proposed scheme solely on an alleged need for further specialization within the profession. I have no personal reason for disagreeing with him, having specialized since qualification. However, the fact that I did not decide to specialize in a particular type of work until late in my articled service may indicate a reason for avoiding strict specialization too early in one's professional career.

Mr Greener fears the term 'chartered accountant' may come to mean as little as 'engineer'. I am not certain engineers would agree with him; whilst retaining their individual institutions, they recently adopted the general description 'chartered engineer'. Although what he says about the diverse specialized qualifications in the building and construction industry is correct, he does not mention the few qualifications available within the legal profession. A solicitor is still a solicitor whether he is in practice, is employed by a commercial undertaking or acts as a town clerk.

The fact that there is a very great difference between a good auditor and a good financial controller is one that few accountants would dispute, but the difference is one of individual qualities and not of individual training. The two require a considerable amount of common knowledge and information and this the scheme recognizes in providing common examinations for all three streams in the earlier part of a student's training. The fact that their requirements do differ to a certain extent is recognized by providing for divergent examinations towards the end of training.

It is not true to say that this is as far as the Institutes seem prepared to go towards admitting ultimate specialization. You will, of course, be aware of the J.DIP.M.A. and C.M.I. qualifications available to management specialists, but I would also draw attention to paragraph 5 of Appendix B to the English Institute's booklet:

> 'It is contemplated that, in due course, the automatic award of Fellowship may be discontinued and that Fellowship will thereafter be available only to those who become proficient in certain specialist fields which have yet to be defined. No specific proposals on these lines are included in the scheme.'

The Institute seems to be developing the view that qualification as a chartered accountant will for some be a base on which to build specialist or consultant status.

So far as confusion in the minds of the members of the public is concerned, from my experience such confusion as exists at present is due not to doubts regarding the field in which an accountant is employed but to doubts regarding assumed differences in levels of competence. If and when the scheme is effected, the position will be little different from that faced by present-day chartered accountants: employers will select their staff by posing relevant questions, general practitioners will refer jobs they are not equipped to handle to specialists (and *vice versa*), and large firms will include experts in all fields among their partners and staff. A contrary arrangement would put the accountancy profession in the same state as the legal profession in the nineteenth century, when a person with no legal knowledge was forced to decide whether he required the services of a solicitor, an attorney or a proctor.

I am certain that adoption of the proposed scheme will enhance the future status of the profession and will result in a levelling-up rather than a levelling-down.

Yours faithfully,

Wallington, Surrey. K. H. OTTER, A.C.A., A.T.I.I.

The Move to Stop *Chartac*

SIR, – Mr Barradell in his letter published in *The Accountant* of August 10th quite reasonably expresses qualms about the procedure which Mr Nicholson and his supporters are using in trying to reverse the instructions given to the Council of the Institute to publish a house magazine. I think most members will agree that it is not generally a desirable practice in any society to attempt to upset decisions taken after due notice and much publicity at an annual meeting, at least until the next annual meeting. In my view, however, the circumstances in the present case are exceptional on the twin grounds of cost and the deficiencies of the voting procedure adopted.

A figure of £40,000 is now used without much contradiction as the annual cost of *Chartac* in its monthly form. If, as seems certain, *Accountancy* is to continue (which, with your journal sir, is very necessary to me as a partner in a small practice) then *Chartac* must always be at risk since another application by our Council for increased fees from members cannot be long delayed. If *Chartac* is 'killed' after a year or two, the costs involved in breaking agreements with advertisers, printers, distributors and staff are likely to bring this cost to over £40,000 per year of life.

Whatever the merits of *Chartac* to members who do not now buy the professional journals available, I for one would like an opportunity of expressing an opinion in the light of two new facts which have become evident since the annual meeting; one is the cost, allied to the refusal to grant the Institute Council the additional funds for which they asked; the other is the Council's decision not to meet their problem by issuing their own journal *Accountancy* free to all members. If the proposals for integration of the profession go forward and other journals are inherited by the Institute, then we shall have perforce to close down one or more of these competitors for news and the reading time of members.

The method adopted for the recording of votes, in the event, proved unsatisfactory; for those members who were present at the meeting and voted overwhelmingly against the resolution after hearing the debate, were marginally outvoted by members who had not been present. I approve the present proposal to issue a transcript of the proceedings to all members before asking for their votes to be recorded on a poll in spite of the cost of so doing. I am sorry to see that efforts are being made to drum up proxies now, presumably to record a vote at the meeting by people who will not be present to hear the pros and cons in full.

Before ending this letter I must take up Mr Barradell's point about Mr Nicholson's 'selective indignation' in objecting to the result of one but not all votes on resolutions at the annual meeting. One other special resolution concerned talks regarding the integration of the profession, on which there will be much debate this autumn and an opportunity for decision. The other was concerned with increased subscriptions, the proposal for which was defeated by such a wide margin that there is no reason to doubt that the result was in accordance with the general views of members. Mr Barradell's criticism on this score is not, I think, well founded.

Yours faithfully,

London WC1. S. N. ELGAR.

SIR, – I do agree with Mr Barradell's letter in your issue of August 10th in which he states that he is disturbed by the action of Mr H. T. Nicholson and his associates in reopening a matter upon which a poll has already been taken.

I am not in favour of the new magazine nor of another decision taken at the meeting. The decisions have been taken and I think should be adhered to, and if this attempt to reverse decisions taken at an annual general meeting is successful, those of us who bother to attend or fill in proxy cards will feel we are wasting our time.

The arguments that proxy voters were ill-informed and that the case against the magazine was badly prepared, I think are bad ones on which to criticize a decision at a meeting, as it is easy for anyone who 'loses' to feel he was in the right if only his point could have been made clear to others.

In an Institute as large as ours, which might become bigger, it is very difficult to get a large proportion of members to attend meetings and fill in proxy cards and I think it would be even more difficult if decisions taken at A.G.M.s. were not regarded as sacrosanct until the next A.G.M. A running battle on a particular point throughout the year is the last way to get members interested in the A.G.M.

Yours faithfully,

Beaconsfield, Bucks. D. G. A. OWEN, F.C.A.

Small Traders' Accounts

SIR, – In your issue of June 15th, you published a letter from me concerning the accounts of small traders and I am disappointed at the absence of response.

Perhaps it has been overlooked in the welter of backbiting over integration, but I should indeed appreciate other practitioners' views.

Yours faithfully,

TORA DATA.

Current Law

Will: Computation of Time

BY his will dated January 16th, 1953, the testator in *Re Figgis (deceased); Roberts v. MacLaren* ([1968] 1 All E.R. 999), devised his house to his wife 'if she shall survive me and be living at the expiration of a period of three months from my death'. The testator died at about 5 a.m., on January 9th, 1966. His wife died at about 11 a.m. on April 9th, 1966, i.e., six hours later on the day three calendar months after that on which the testator died.

On a summons to determine, *inter alia*, whether the gift of the house took effect in the wife's favour, Megarry, J., held that, there being nothing in the context of the will to require otherwise, the word 'months' meant calendar months as provided by section 61 of the Law of Property Act 1925, and the period of three months was to be computed in complete days, excluding the day on which the testator died; accordingly the period began at the end of the day on which the testator died and ended at midnight on April 9th, 1966, so that the gift of the house did not take effect in favour of the wife.

Administration of Estates

TWO further questions fell to be determined by the Court in *Re Figgis*. The husband and wife married in November 1915. In August 1917, when he was serving in the Army, the husband opened a joint current account with a branch of the M Bank in the names of himself and his wife. In June 1949, the husband opened a joint deposit account at the same branch. The husband operated these accounts himself and the wife left them alone. The husband had no bank account in his sole name.

In October 1929, the wife opened a current account in her sole name, which she transferred to the same branch in February 1959. The wife also had a deposit account in her sole name at the same branch. Both joint accounts were in credit at the husband's death. By clause 7 of his will, the husband directed that any estate or other duties on gifts made by him in his lifetime to his wife should be paid out of his residuary estate.

On the question whether the moneys standing to the credit of the joint accounts formed part of the wife's estate and, if so, whether, on the construction of clause 7, any estate duty ought to be paid out of the residuary estate, Megarry, J., held (1) that the presumption of advancement applicable to moneys in a joint bank account was not rebutted by the evidence; accordingly the moneys belonged to the wife on the husband's death; (2) the credit balances were not within clause 7 since payments into the joint account by the husband were not 'gifts' in the sense of that word in clause 7, and the fact that on the husband's death she became entitled to credit balances did not bring them within the description of 'gifts made by me during my lifetime', accordingly duty was not payable out of the residuary estate.

Matrimonial Home

IN *Protheroe v. Protheroe* ([1968] 1 All E.R. 1111), a husband and wife bought a leasehold dwelling-house as their matrimonial home. The leasehold was taken in the husband's name but it was not in dispute that the lease was held by the husband on trust for himself and his wife in equal shares. In March 1964 the husband left the home; in July the wife presented a petition for divorce, and in October, the husband purchased the freehold reversion in the home for £200 which he borrowed from a building society. The leasehold was worth separately £2,450 but the freehold would fetch £3,950.

On the question whether the wife was entitled to a half-share in the freehold the Court of Appeal held that the husband was a trustee of the matrimonial home and his purchase of the freehold resulted in that interest becoming trust property; accordingly the wife was entitled equally with the husband to the net proceeds of sale of the freehold subject to the expenses incurred by the husband in purchasing that interest. The Court applied *Keech v. Sandford* ([1726] Sel. Cas. Ch., 61).

Winding-up Petition Dismissed

THE company in *Re Craven Insurance Co Ltd* ([1968] 1 All E.R. 1140), was incorporated in January 1966, and had in its first financial year ending March 31st, 1967, a substantial premium income. On December 31st, 1967, its assets exceeded its liabilities by £167,184, but it had not at that date a margin of solvency that would satisfy section 13 (1) of the Insurance Companies Act 1958 as substituted by section 79 (1) of the Companies Act 1967.

The margin of solvency required was that the assets should at all times exceed the liabilities by the 'relevant amount'. The relevant amount was one-fifth of the general premium income of the preceding financial year. The relevant amount for the year ended March 31st, 1967, was £355,928. The company had firm prospects of some £124,000 further capital which would reduce the deficit of £188,142 to £64,744. A forecast of the general premium income for the company's financial year ending March 31st, 1968, showed that the relevant amount would be less by £66,053 than the relevant amount for the year ended March 31st, 1967. Thus there was a good prospect that the company would have the required margin of solvency as from March 31st, 1968.

On a winding-up petition presented by the Board of Trade under section 15 (2) of the 1958 Act as substituted, Pennycuick, J., held that there being a firm prospect of the statutory margin of solvency being attained by the company in the near future, the Court would dismiss the petition, the company undertaking to supply the Board of Trade with particulars of its general premium income for the year ending March 31st, 1968, and of its assets and liabilities at that date, and to supply audited accounts for the year ending March 31st, 1968.

[An order has now been made for the compulsory winding-up of the company.]

Duties of Directors

THE defendant company in *Lindgren and Others v. L. & P. Estates Co Ltd* ([1968] 1 All E.R. 917), owned two groups of properties. Group 1 consisted of properties recently let at rack-rents and showing a good return. Group 2 comprised properties let not so recently and showing a poor return, but which would be valuable when the leases expired. The sole share-owner offered the properties to a development company of which C was chairman and L a director.

The development company wished to buy the group 1 properties, which would provide good dividends for its shareholders, without the inclusion of the group 2 properties which were unsuitable for inclusion in the portfolio of a development company; but a purchaser for the group 2 properties was found in the trustees of a settlement under which C's children were beneficiaries to whom the growth of the trust fund was more attractive than present income. L was a trustee of the settlement.

In January 1959, the development company contracted to buy all the shares of the defendant company and obtained the agreement of the share-owner to the defendant company entering into leases of the group 2 properties to the trustees. In March 1959, the defendant company entered into a written contract with the trustees to lease to them the properties for ninety-nine-year terms.

The contract was not implemented by the execution of leases but was acted on for some years. In 1963 both C and L resigned as directors of the development company and disposed of their interests. In an action by the trustees for specific performance of the contract, the defendant company contended that the agreement was invalid because its directors had acted in breach of duty to it by acting on the directions of C.

On appeal by the defendant company from a decree of specific performance, the Court of Appeal held, dismissing the appeal, that the contract was not invalid as, on the facts, the defendant company's directors were not in breach of duty to the defendant company.

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Equipment Notes and News

Computer Print-out

ALTHOUGH known more for their ability to supply forms, Lamson Paragon now have several machines capable of coping with the print-out end. One of these, for use with an installation where there is a consistently heavy output, is the Multi-web decollator which simultaneously removes sprocket hole margins and decollates forms and carbons at speeds of up to 300 feet a minute. It can also be fitted with a centre slitter if required.

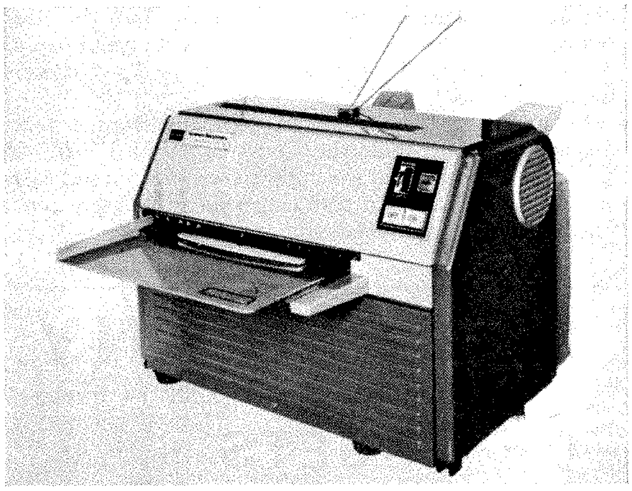
Basically a two-stage unit, it can be extended by further two-stage units to a total of eight stages. Even with an eight-part set of forms, the machine can be loaded in less than 60 seconds – inching buttons and magnetic setting stops for various form depths act as an extra pair of hands.

Lamson Paragon Ltd, Paragon Works, London E16.

Table-top Electrostatic Copier

SELLING at £239, weighing only 67 lb., and taking originals up to 11¾ in. wide by any reasonable length, the Minolta electrostatic photocopier will give perfectly dry copies at the touch of a button. Copies can be produced at about six a minute from airmail or thick paper either single or double sided.

There is no warming-up period, and copies are obtained simply by putting a sheet of copy paper on to the original and feeding into the copier. The average copy cost is claimed to be less than 3*d* each.



Minolta Electrostatic Photocopier.

Anson-Skycopy Ltd, 75 Southwark Street, London SE1.

Data Collection Systems

AT this year's Instruments, Electronics and Automation Exhibition, three new data collection systems were displayed by Addo Ltd. The first, for use in a factory for employees clocking in or out, consists of a badge reader allowing users of identity badges, punched with individual identification, to insert them into the reader which is linked to a digital clock and a card programmed tape punch. This information can be automatically punched onto a paper tape for computing wages, for a production record for piece work, or for other costing on the factory floor.

The second system, comprising a special loading and safety limit process, was originally developed for an airline and used with an input keyboard at each boarding point linked to a central input machine and three separate printers. This enabled checkers to insert necessary statistical information as to the flight number, number of passengers and all-up weight which would provide a totalled booking number and also the weight for each flight, thereby avoiding overloading or overbooking. It can equally well be used for industrial purposes where safety limits or fixed loading specifications are required.

Finally, the third data system on display was a key-operated machine on which can be recorded reference numbers of products and quantities produced. This information is then transmitted to a central office collection point which identifies the source of the information and automatically prints it out or punches a paper-tape record for processing. Before punching, all reference numbers entered at the production point are automatically checked by the electronic digit verifier.

Addo Ltd, 85 Great North Road, Hatfield, Herts.

Computer System for Merchant Bankers

MERCHANT bankers Brown Shipley & Co Ltd have ordered a Burroughs B 500 central computer system to be linked on-line with TC 500 terminal computers at their City of London offices.

The terminal computers, which are capable of considerable calculation without reference to the central processor, will be used to prepare advices of transactions carried out by the bank for its customers. At the same time, all the accounting entries arising from these transactions will be transmitted by the terminals to the central computer and stored on the Burroughs disk file ready to up-date the appropriate accounts and records, thus capturing data at source.

The system will be used initially for foreign exchange transactions, accepting and discounting bills of exchange and general banking. Investment and securities work is planned to be passed to the computer at a later stage.

In addition to the central computer and TC 500 terminal computers, Brown Shipley's system configuration will include a three-station, magnetic tape cluster and a fast Burroughs disk file with a storage capacity of over 19·2 million characters. The random access 'memory', it is claimed, can refer to any item of information in one twenty-fifth of a second.

Notes and Notices

PROFESSIONAL NOTICES

Messrs Donald H. Bates & Co, Chartered Accountants, of 110 Lichfield Street, Hanley, Stoke-on-Trent, announce that Mr R. M. Chapman, F.C.A., retired from the partnership on August 13th, 1968, but remains available for consultation.

Messrs Norman Hunt, Howse & Co, Chartered Accountants, of 7 Cromwell Place, London SW7, announce with deep regret the death of their senior partner, Mr Norman S. Hunt, F.C.A. The practice will be continued under the same style by the remaining partners, Mr J. B. Howse, F.C.A., and Mr M. J. Ridge, F.C.A.

Messrs James, Edwards, Dangerfield & Co, Chartered Accountants, of Salisbury House, London Wall, London EC2, and Messrs Duncan & Toplis, Chartered Accountants, of 55 High Street, Grantham, with offices at Nottingham, Sleaford and Gainsborough, announce that their two firms have become associated. Mr F. Miller has retired from the partnership of Ducan & Toplis. He will, however, continue actively as a consultant. Mr K. H. Johnson, A.C.A., who has been on their staff for several years, has been admitted to the partnership.

Messrs Wilson, Bigg & Co, Chartered Accountants, of 4–7 Chiswell Street, London EC1, announce that Mr Walter W. Bigg, F.C.A., retired from the partnership on August 15th, 1968. Mr Bigg will continue to remain available in a consultative capacity.

APPOINTMENTS

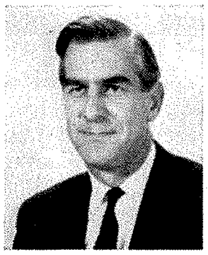
Mr G. W. Baigent, F.C.A., has been appointed a director of Marples Ridgway (Constructors) Ltd.

Mr H. M. Earnshaw, F.C.A., secretary of Staveley Industries Ltd, has been appointed to the board of the company as from September 1st.

Mr Philip Fine, F.C.A., joint managing director of Ashbourne Investments Ltd, has been appointed deputy chairman of the company.

Mr G. E. Hendrie, C.A., has been appointed financial controller of Trust Houses Group; Mr P. J. Bulman, F.C.A., has been appointed financial controller of Trust Houses Hotels Ltd, and Mr T. A. Fuller, F.C.A., becomes financial controller of Gardner Merchant Ltd, also a member of the Trust Houses Group.

Mr G. G. Buckley, F.C.A., has been appointed to the board of Stone-Platt Industries Ltd as finance and commercial director.


Mr G. G. Buckley

Mr J. R. Richardson

Mr J. R. Richardson, F.C.A., and Mr P. N. Grice, F.C.A., directors of Cerebos Ltd, have been appointed to the board of Rank Hovis McDougall Ltd following the latter company's bid for Cerebos. Mr O. Mills, F.C.A., assistant managing director of Ranks, is to join the Cerebos board.

Mr A. S. Rosen, F.A.C.C.A., has been appointed assistant managing director of Goulston Discount Co Ltd and its subsidiaries.

DOUBLE TAXATION

Sweden

The supplementary protocol to the United Kingdom – Sweden Double Taxation Convention, which was signed on June 27th, 1968, was published on August 14th as a schedule to a draft Order in Council.

Grenada

The agreement amending the arrangement made with Grenada in 1949 was signed last month and the text will shortly be published as a schedule to a draft Order in Council.

MASTER'S DEGREE FOR THREE ACCOUNTANTS

Three young accountants have just qualified for the award of a London University master's degree following two-year courses at the London School of Economics. It is of considerable interest to note that they were all registered under the professional qualification arrangements, none of them having taken first degrees.

The successful three, who qualify for the M.SC. in Accounting and Finance, are Mrs Susan Dev, A.A.C.C.A., A.T.I.I., of South Ruislip, Middlesex, Mr B. D. Najak, A.A.C.C.A., of London W8, and Mr Clive Jolliffe, A.I.M.T.A., formerly of Northampton.

Mrs Dev and Mr Najak both distinguished themselves in the Association's examinations, being awarded First Place in Part II of the Final, and Mrs Dev was also awarded distinction in the examination for associate membership of the Institute of Taxation. Mr Jolliffe, in addition to being a member of The Institute of Municipal Treasurers and Accountants, holds the London University Postgraduate Diploma in Public Administration.

NATIONAL GIRO IN OCTOBER

Mr John Grady, Director of Giro and Remittance Services at the Post Office, announced on Thursday of last week that the new National Giro service will open for business on Friday, October 18th.

The new service, based on the

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National Giro Centre now being completed at Bootle, Lancashire, will offer a current-account banking service to anyone over the age of 16 resident in the U.K., the Isle of Man or the Channel Islands. It will also offer business organizations new ways of receiving and making payments both internally and internationally by using international Giro services.

Mr Grady observed that it was remarkable to look back and realize that it was only three years ago – almost to the day – that the Government's decision to institute a Giro system was announced. In these three years the National Giro Centre had been designed, built and equipped, the system had been defined, specified and programmed, and about two thousand staff had been recruited and trained.

Leaflets describing the service and application forms to join are now available in Post Offices and an advertising campaign is being launched to bring the service to the notice of the general public.

SOUTH EASTERN SOCIETY OF CHARTERED ACCOUNTANTS

Future Meetings

The 1968–69 session of meetings arranged by The South Eastern Society of Chartered Accountants will commence at Dorking on September 12th, with an address on the Finance Act 1968, by Mr Halmer Hudson, F.C.A.

This opening meeting will be followed by a residential conference at the University of Kent, Canterbury, to be held from September 26th to 28th. The papers for the conference will be presented by leading speakers and time will be allowed for discussion. The four speakers will be Messrs T. A. Hamilton Baynes, M.A., F.C.A., H. T. Nicholson, F.C.A., P. Shelbourne, of N. M. Rothschild & Son, and H. Wincott, of *The Financial Times*. The theme of their talks will cover valuation of ordinary shares and the allied problems of probate and taxation. The aim is to present the subjects in a highly interesting form which will be of value both to members in practice and in commerce.

The Institute's plans for the development of the profession and integration with other accountancy bodies are to be discussed by members – with Council members in attendance – at a number of locations throughout the area of the Society, as announced in *The Accountant* of July 27th. The meetings will commence at Canterbury on September 26th and conclude at Brighton on November 27th.

The Society's annual dinner will be held at the Hotel Metropole, Brighton, on November 8th.

CHARTERED ACCOUNTANTS' HOCKEY CLUB

In a match played against the Bank of England at Roehampton on July 31st, the Chartered Accountants' Hockey Club won by 4 goals to 2.

It proved to be a hard-fought game in which the chartered accountants gained ample revenge for their defeat last year. The chartered accountants even started off on the right foot as twelve men, including two goalkeepers, turned up to play – a most unusual occurrence. The matter was quickly resolved and one goalkeeper, David Morrison, played a sterling game at inside-right.

The Bank opened their account first, scoring a good goal in a breakaway attack by their centre-forward. The chartered accountants were quick to level things up when P. Russell-Smith scored from an acute angle. Just before half-time the Bank moved into the lead once more and held on to this lead until the start of the second half.

The second half belonged mostly to the chartered accountants, and in particular to O. Webster-Smith who scored a hat trick, and at all times looked dangerous when in possession. His third goal was probably the best of the game when he hit a loose ball on the volley straight into the back of the net.

Chartered Accountants: J. Glover (*Guildford*); R. Cass (*Purley*); I. Whitman (*Purley*); B. Jones (*Blackheath*); R. Davis (*Blackheath*) captain; J. Chaplin (*Richmond*); L. Webber (*Blackheath*); D. Morrison (*Blackheath*); P. Russell-Smith (*Cheam*); M. Gallert (*Cheam*); O. Webster-Smith (*Cheam*).

Umpire: C. Merriman.

ANNOTATED TAX CASES

Part 8 – the concluding part – of Volume XLVI of the *Annotated Tax Cases*, edited by Mr Peter Rees, of the Inner Temple, Barrister-at-law, is now published and contains reports, with notes on the judgments, of the following cases: *Salmon v. Havering General Commissioners* (Ch.D.); *Clixby v. Pountney* (Ch.D.); *C.I.R. v. Land Securities Investment Trust Ltd* (Ch.D.); *Bowater Paper Corporation Ltd v. Murgatroyd* (Ch.D.); *C.I.R. v. Hague* (Ch.D.); *Edwards v. Warmsley, Henshall & Co* (Ch.D.); *Wiseman v. Borneman and Others* (Ch.D. and C.A.); *Hood Barrs v. C.I.R.* (C.S.); *C.I.R. v. Morris* (C.S.).

The index of cases and subject-matter for the volume will be published shortly, after which the volume may be bound.

The annual subscription is 70*s* post free, and the publishers are Gee & Co (Publishers) Limited, 151 Strand, London WC2.

PRINCIPALS' SAVINGS ON ARTICLED CLERKS

Correction

Commenting under 'Current Affairs' in last week's issue, we said that savings in the region of £100 per articled clerk can accrue to principals seeking to benefit from the English Institute's newly-published statement on national insurance and SET in respect of articled clerks. In fact, the saving is more of the order of £60, as it was overlooked that SET – which goes up to 37*s* 6*d* per week for men of 18 and over on September 2nd – is included in the weekly national insurance contribution paid by employers.

IMPORTANT MESSAGE TO ALL QUALIFIED ACCOUNTANTS

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Close Company Distributions

THE introduction of corporation tax has made it necessary for directors of close companies to operate their dividend policy with much greater precision than was called for under the former surtax direction rules. The latter required that the whole of the profits should be deemed to have been distributed if the company had failed to distribute a reasonable proportion and, in practice, it was a matter for negotiation with the surtax authorities as to what proportion was reasonable in the circumstances.

These arrangements depended for their practical implementation on a concession whereby, for surtax purposes, dividends expressed to be paid with retrospective effect were by mutual consent allocated to those earlier years for surtax purposes – a procedure inconsistent with income tax treatment. For all purposes of the Corporation Tax Acts, however, section 89 (4) of the Finance Act 1965 provides that dividends are to be treated as paid on the date when they become due and payable.

The new rules of apportionment for the income of a close company as set out in section 78 make it clear that surtax is integrated with income tax 'shortfall' arrangements and the former dichotomy has ceased to apply. One feature of the old system continued by its successor is that whereby distributions out of profits subjected to a direction are not again required to bear surtax. Section 78 (7) (*d*) limits the application of this relief to the case where on the occasion of the subsequent distribution, the distributions for the accounting period exceed the required standard. In that event the relief applies only to the same fraction of any amount to which an individual is entitled as that excess is of the whole distributions for the period.

Of more immediate concern to directors is the impact of income tax on under-distributions – a burden shouldered by the company. For the majority of close companies the profits to be reviewed will comprise what is known as estate or trading income. This classification is broadly in line with the distinction made for individuals between 'earned' and 'investment' income, although income from the ownership or occupation of land is re-classified for this purpose as 'non investment'. The general rule, now well familiar, is that 60 per cent only of the estate or trading income, net of the tax thereon, requires to be brought into the reckoning of the 'required standard' of distributions.

As was anticipated, the complex of rules in this connection inaugurated in 1965 and amended in subsequent Finance Acts has given rise to controversy as to the correct interpretation of particular passages. Hence the Accountants' Joint Parliamentary Committee were instrumental in securing the publication of the statement reproduced in our last issue whereby confirmation or clarification of a number of points of uncertainty was obtained, several of which concern close company 'shortfall'.

One such point turns on the terms of paragraph 7 (3) of Schedule 18 to the Finance Act 1965 which grants a further concession to companies possessed of a fund of investment income all of which would, prima facie, rank for inclusion in the required standard along with 60 per cent of the estate or trading income. The concession granted a threshold relief with a ceiling at the rate of £200 for a twelve months accounting period, or, if less, 10 per cent of the estate or trading income.

On a literal reading this reference could be taken to relate to the gross income, despite the fact that the context is concerned with income net of corporation tax, but it has been confirmed that the latter meaning is correct. A similar confirmation has been stated to apply as regards the proviso to section 77 (2) although the possible alternative meaning here would have rendered the legislation virtually inoperative.

The proviso referred to is the one which rules that the required distribution standard of a close company is in no case to exceed the company's distributable investment income, that is, all income other than estate or trading income and net of corporation tax but exclusive of the element representing chargeable gains and of the threshold relief as referred to above, with an addition for 60 per cent of the estate or trading income as reduced by a separate sliding scale abatement. This abatement is on similar lines to that familiar under profits tax rules, the relief being given by means of a 20 per cent reduction measured by reference to the gap between the level of the required standard and £9,000 (if higher) so that an estate or trading income which does not attain £1,500 secures complete exemption.

This abatement is not, however, available if the company fails to rank as a trading company as defined in paragraph 8 of Schedule 18, or if it has an associated company, a form of relationship which involves reference to the nexus of rules in Part I of Schedule 18 relating to control.

A major point clarified in the recent statement concerns the Revenue's attitude where association is attributable to the accident of family relationships rather than substantial trading interdependence, and it is important that cases outstanding should not be settled without first considering the possible availability of this concession. The statement also considers certain more technical cases of possible association, with particular mention of a common loan creditor.

The loan creditor is defined in paragraph 4 of Schedule 18 in terms which exclude an ordinary banker. The involvement of loan creditors with close companies which do not rank as trading companies was given an extended meaning by section 258 of the Income Tax Act 1952 in relation to the former surtax direction rules and this has been continued for the purpose of restricting the criteria of those requirements of a company's business which warrant 100 per cent retention of estate or trading income. The recent statement makes it clear that as regards trading companies, expenditure on or towards the repayment of any loan or debt may be treated as being applied to the requirements of the company's business.

Nevertheless there remain many situations in which a significant required standard of distributions will be found to exist. In such circumstances it behoves a prudent directorate to ensure that full use is made of all distributions actually effected so that the gap between standard and actuality is minimized. Lest it be thought that such an objective is unworthy of good citizenship, we invite attention to the encouragement given by Parliament to dividend planning through the extension from 12 to 18 months of the period within which a dividend can be declared with retrospective effect so as to be matched with an antecedent accounting period (section 24 of the Finance Act 1968).

It is a maxim of generalship that the loss of a battle need not preclude the success of a campaign. Should a shortfall assessment be sustained, a close company may have recourse to section 77 (6) of the Finance Act 1965 which provides that in subsequently arriving at any surplus of franked investment income or determining the income tax payable by the company in respect of distributions for the later period (with certain limitations), a claim may be made to deduct the amount of the previous shortfall (so far as not already utilized) *rateably* from the distributions made for the later period.

It seems that the interpretation of the word 'rateably' has occasioned difficulties and the Board of Inland Revenue have given the accountancy bodies their interpretation of it. Reference may be made to the statement in which the ruling is amplified by an example, but the significant point to notice is that except for those few companies which make up their accounts to April 5th, it is a matter of some importance to consider not only the total dividends for the accounting period but also their distribution over the fiscal years which comprise it.

A practical limitation on the freedom of a group of close companies to effect a reorganization flows from the more stringent standard imposed by paragraph 12 of Schedule 18 where a company ceases to trade or goes into liquidation. The Inland Revenue have now intimated that they are prepared to consider relaxing these provisions where the operation is prompted by bona fide commercial reasons.

Too Many Forecasts?

A NUMBER of questions of relevance to the business community are posed by the publication last Friday of the August issue of *Economic Review*, produced by the National Institute of Economic and Social Research. Three of the questions which might well be asked are: Is there a need on the part of the business community for economic forecasts of this type? Are there too many bodies producing them? Why do these forecasts need amending with every successive issue?

The answer to the first question must be an emphatic 'yes'. No businessman, however expert, has complete control of his own business affairs; his day-to-day transactions and his prospects for the immediate future are dependent, in varying degrees, upon the British and world economic scene. The *Economic Review* prefaces its contents with the sentence: 'The *Review* is intended to be of service to those, in business and elsewhere, who need to take a view of the general economic situation and prospects'. This sentence could serve equally well as an introduction to the various other publications of similar nature.

The rash of semi-official and purely private organizations producing economic forecasts of this type is one result of the Treasury's and Department of Economic Affairs' persistent refusal to set down the Government's own views on the short-term economic prospects in the same comprehensive and detailed form that they appear in *Economic Review* and its contemporaries. Three major organizations now regularly publish such forecasts. In addition to NIESR, the London Business School and the London and Cambridge Economic Service are both in this field. No doubt a considerable duplication or triplication of effort results from this approach, together with conflicting views, and it is debatable whether competition between economic experts is altogether a good thing.

Books could be written in reply to the third question. Again *Economic Review*, in a single sentence, gives a masterly summing-up of the problem: 'The workings of the economy are not fully understood; and even if they were, economic prediction would remain hazardous because of the impact of political events and technological developments'. Nevertheless the Institute consider their forecasting activities to be worth while . . . 'the Institute believes that a group of economists presenting a comprehensive account of current economic developments and a coherent view of likely trends can perform a useful service'. From a national point of view, an example of a useful service of this kind can be found in the attention which has been drawn to the rapid growth in imports of manufactured goods in spite of devaluation. The Institute was early in the field in their warnings of the effect on the balance of payments of this rapid growth. Their suggested remedial measures – import controls – are perhaps more controversial.

Turning now to the predictions and analyses put forward in the *Review*, it can be said at the outset that the short-term picture looks less favourable now than it did in May. The six months from October 1967 to April 1968 was a period of expansion led by a spending boom. In the second quarter of this year the economy entered a quieter phase as the steam went from the consumer spending spree and only stockbuilding and exports showed any significant expansion. This has meant a considerable slowing down in the rate of industrial expansion and some rise in unemployment. For 1968 as a whole, gross domestic product is expected to grow by rather more than 3 per cent. The positive elements in this growth will come from an expansion in total investment – fixed capital and inventories – a substantial growth in exports and a slowing down in the volume of imports. Of themselves, these elements would boost gross domestic product by $4\frac{1}{2}$ per cent; their effect will be partially neutralized by a fall in consumption equal to $1\frac{1}{4}$ per cent of g.d.p.

The balance of payments results for 1968 look likely to be worse than last year's, with a visible balance of minus £800 million compared with minus £650 million in 1967, invisibles of the order of £350 million compared with £135 million in 1967, and an outgoing balance of £125 million on long-term and capital account, compared with an incoming balance of £34 million. For 1969, the experts now forecast a surplus of £250 million, with an annual rate of surplus in the second half of the year of £370 million in which there will be a small surplus on visible account. These balance of payments forecasts taken year by year look a lot worse than previously estimated, but the difference is largely one of timing – with the movement into surplus coming later but with much the same large rate of improvement. Devaluation should therefore still yield handsome dividends but not so soon as expected. Meanwhile, Britain's borrowings will remain at a staggeringly high figure.

World trade in 1969, is expected to increase less quickly – 5 per cent compared with 8 per cent in 1968. An upward revaluation of the deutschemark is suggested as a remedy for improving European balances of payments.

Current Affairs

Unlimited Companies

WE are indebted to a north-country firm of chartered accountants for news of a concession in the operation of section 43 of the Companies Act 1967, which relates to the conversion of limited to unlimited companies.

There is on the register a very large number of companies which were originally incorporated under a personal name, e.g. 'John Smith Ltd'. On re-registration of such a company under section 43, deletion of the word 'Limited' leaves no indication to the public at large that they are dealing with a corporate entity rather than an individual. Similar remarks apply to investment or property-holding companies registered under such names as 'Smith's Estates Ltd'.

It was previously held that addition of the words 'Company' or 'and Company' would constitute a change of name under section 18 of the 1948 Act – this procedure necessitating a special resolution, a separate notification to the Registrar of Companies, and the payment of a further fee of £10. However, the Registrar has now indicated that he is prepared to accept for registration under section 43 a revised Memorandum of Association which includes a minor alteration to the name of the company (i.e. the addition of the words 'Company' or 'and Company') without payment of the additional change-of-name fee, or the necessity for filing a special resolution relative to the alteration in the name.

It is emphasized that this concession is available only where the change of name is considered to be requisite to the change in status of the company from limited to unlimited.

Women and Taxation

DISCRIMINATION in taxation in respect of women was the subject of a session at the Eleventh International Congress of Business and Professional Women held in London last week. Mrs Cecilia Nettelbrandt, of Sweden, opened the discussion and the supporting panel comprised delegates from Australia, Canada, South Africa, Sweden, the UK and the USA.

Representing the UK was Miss Elizabeth Thurston, F.C.A., who commented on the archaic attitude to tax law in Britain towards married women. Any income of a wife is assessed and charged on the husband: separate assessments can be obtained (provided the husband agrees) but tax is always assessed together. A working wife separated from her husband may, on claiming a refund, meet the situation where, if the husband owes tax, her claim can be used as a set-off. This, of course, can happen conversely.

Again, as Miss Thurston pointed out, to a woman in business, payments to employees in the business are an allowable expense, but this is not so as regards payments to a domestic who helps in her home and without whom the employer could not run her business.

A single person, either man or woman, who maintains a home and has a parent living there too, can claim only dependent relative allowance, but their outgoings are probably equal to a married man claiming the married allowance. The Inland Revenue, said Miss Thurston, in effect encourages immorality among the older and higher paid taxpayers, for a married couple each earning £5,000 pay about £1,000 more tax than a couple 'living in sin'. Tax should therefore be assessed on individuals, she said.

The USA, represented by Miss Sarah Jane Cunningham, pointed out that the persons who were taxed the lowest were householders, and those who were taxed highest were single persons. Miss Norma Young of Australia, Miss Charlotte Van Dine of Canada, and Mrs S. M. Brockenhagen from South Africa, all said that although they felt there was discrimination between taxpayers in their countries, certain moves had been made which were, they felt, leading in the right direction.

Outlook for Trade

THE four-monthly inquiry into the experiences and expectations of UK merchants, which is conducted among a sample of its members by the Association of British Chambers of Commerce, reveals a 'marked rise in the level of confidence in the general business situation'. The latest inquiry – the nineteenth in the series – is based upon a sample of 227 merchants whose estimated annual turnover is nearly £370 million. Of this aggregate trade, exporters account for about £262 million (equivalent to 5 per cent of total UK exports) and importers for an estimated £106 million – equivalent to about 2 per cent of UK imports.

Apart from a general impression of greater confidence than existed four months ago, the report observes that it is difficult to draw any firm conclusions. It seems, however, that merchants are currently more confident than they were of 'substantially increasing the sterling value of their exports as a result of devaluation'. Perhaps the most significant finding is that despite the competitive advantage in respect of prices conferred upon UK exporters, about one-half of the respondent firms are of the view that prices are a factor limiting export orders. While this is a lower percentage than was recorded four months ago, it is interestingly enough a higher proportion than took this view last August, preceding the devaluation of 1967.

The bigger firms among the respondents take a less optimistic view of prospects in Africa, South-east Asia and Eastern European countries than do the smaller firms. All groups report improving prospects in Western Europe, and the same is true of all except those in chemicals, of the prospects in North, Central and South America. Likewise, all groups seem agreed on a probable reduction in business in the Middle East, except for foodstuffs and industrial materials.

As disturbing as the apparent lack of price competitiveness expected by so many respondents, is the finding that the delivery times and the level of outstanding orders have also increased: 'Delivery dates have lengthened and average prices accepted on new orders have risen' – trends which are expected to continue in the coming four months. When one considers the level of unemployment and the relative slack in the economy, such talk of poor delivery dates and higher prices is far from encouraging.

This is My Life

by An Industrious Accountant

IT'S all very well for the leaders of our profession to urge us accountants in industry to widen our scope beyond the sphere of book-keepers and recorders and to branch out into new dynamic activities. Be return-on-investment analysts, we are told; measure net worth trends and operational research impact; become asset value consultants, computerization advisers and tax wizards; see yourselves as part of the top management team.

These well-meant exhortations are high-sounding and impressive but, in practice, we rarely get around to them. We're too busy trying to sort out the esoteric problems dumped hastily into our laps by our harassed colleagues who see us as the natural repositories of those technical headaches which they can't or don't want to deal with themselves. Insurance responsibilities invariably lead the field.

I was settling down to the interesting intricacies of re-structuring our depreciation reserve (buildings) which, frankly, is unrealistic in the extreme, when Scotty, the sales manager entered. 'About the escalator to Toys', he said briskly. 'We're fully covered for accidents, I suppose?' He knows right well we are, our safety committee having minuted the terms of our policy annually but he likes to ask leading questions like that.

Apparently a child sat down on the ascending staircase and had its coat caught as the steps flattened out near the exit. No real damage, *Deo gratias*, but bruises, outcries and outrageous demands for compensation. 'A hard-faced young vixen,' snorted Scotty, 'who should ha' enough sense to insist on her puir wee bairn standing a' the way up and noo she wants her pound of flesh'.

So we got the telephone wires humming to the insurance broker and the solicitor, while Scotty checked the red warning notices on the walls and I unearthed last year's file about the old lady who got hysterics in the revolving doors. The afternoon vanished unnoticed.

Last month the lift was the trouble-maker. A truculent little runt in an imitation-leather jacket claimed that the lift attendant closed the doors too quickly. His wrist was bruised, he asserted, and his valuable shoulder-strap transistor was dented and broken. Common law negligence, he snapped; we'd hear from his lawyers in the morning. The day would yet come, he harangued us, when the exploited wage-earners would rise against the faceless men . . . unless, of course, we saw our way to make full restitution immediately.

Personally, I dislike our new lift. The gates tend to close suddenly with a frightening speed as if they're trying to crush unwary entrants, and I'd hate the thing to go up while I had a leg sticking out. So I had an underlying sympathy for Leather-jacket, even while I shook a peremptory finger at him and talked sternly about contributory negligence and gross irresponsibility.

Then there was the frail little old lady who found a big yellow caterpillar in her salad in the restaurant; and got sick first and collapsed second. Malnutrition, cardiac spasms and traumatic shock, were all blamed on us at some stage. And Lady M., who claimed that a badly-balanced cosmetic cabinet had fallen from the counter upon her foot, causing her pain, nervous hysteria and emotional anxiety.

She's not really dishonest – battleaxe though she is – she just likes a fight; but her devilment is as bad as the real thing.

Fortunately our public liability underwriter, though apt to roll his eyes to heaven and swear, stands by the principle that if we're ever found liable for anything whatsoever, he'll pay up without flinching. Wait till he hears the latest news-flash – that the overhead sprinkler-system has just spouted like a gusher in our ladies' hairdressing saloon, at the height of Monsieur Somebody's demonstration of this autumn's waves to the local Soroptimists Society.

Measuring the net worth of the claims to come will really test top management's skills.

But is it Ethical?

2. On Gaining and Losing Clients

CONTRIBUTED

This series of articles is based on the author's understanding of the usages of the profession as a whole and does not relate exclusively to any particular professional body. The opinions expressed are those of the author and would not necessarily be endorsed by the governing bodies of the profession in a particular case.

Rejoice for a brother deceased
Our loss is his infinite gain –

SO sang the Rev. Charles Wesley, the eighteenth-century clergyman and hymn writer. Brother Charles was, however, thinking of souls in transit to, let us hope, a happier world; certainly not of clients lost to another practitioner, when the rejoicing at one end of the transaction is often less marked.

Professional communication

All practitioners, and most of their staff and students, are familiar with the ethical rule which requires an accountant to communicate with his predecessor before accepting the transfer of a client. This has been established practice for a number of years and any disregard of it is liable to be treated as a disciplinary matter by the professional bodies. The same rule applies whether or not one's predecessor happens to be a member of any particular body of accountants, or of none, since (to put it at its lowest) exclusiveness of this sort can be a two-edged weapon.

In view of the long history and widespread acceptance of the professional duty to communicate, the misapprehensions which sometimes arise from it are surprising. Misunderstanding is implicit in the very use of such phrases as 'professional *objection*' or 'professional *clearance*'.

The purpose of the communication is not to hamper the client's freedom of choice, and certainly not to give the outgoing accountant anything approaching a 'freehold' over the job, but to ensure that the new accountant is aware of all the circumstances in which a change is proposed. A client may transfer his instructions for what reason he pleases, or for none; and whilst most practitioners would no doubt prefer to hear of an impending transfer from the client in the first place rather than from an intended successor, it must be conceded that this is an imperfect world.

It is for the new accountant to inquire whether any professional reason exists which may affect the transfer; and having considered whatever representations his predecessor may see fit to make, to exercise his own discretion as to whether in all the circumstances he is prepared to accept instructions. His predecessor may indicate that the client's demands are unreasonable, his records fragmentary, his memory unreliable, and his fee account continually in arrear; but the new accountant must decide for himself whether to accept or decline that client, and will not in either event be vulnerable to ethical complaint.

For example, A as auditor of a limited company finds himself at odds with the directors over the treatment of certain transactions which appear to be of a speculative nature and consequently detrimental to the shareholders' interests. He is notified of a proposal to appoint another auditor in his place, on specious grounds, which he suspects is an attempt to forestall the same difference of opinion on next year's accounts. In due course he receives a communication from his proposed successor, B; and B, in view of A's comments, declines to accept the job. Then an approach is received from C; A gives the same information as to B, but C decides to accept the client's instructions – and, in fact, contravenes no accepted rule of professional behaviour by doing so.

Without in any way decrying the integrity of A or B, it is submitted that this must be the correct position. To decide otherwise on C's case would be to invest the profession with powers beyond those which Parliament has decided it should possess, and which might not always be wisely or properly exercised. A was perfectly correct in expressing his doubts to both B and C, but could not 'forbid' or 'permit' either of them to act.

Unpaid fees due to a predecessor are not in themselves a professional reason against accepting a client: there may indeed be bona fide grounds for disputing the bill, and the accountant is not obliged to inquire into this aspect. The matter is one for individual discretion; some practitioners are content to leave their predecessor to pursue whatever legal remedies may be available, some will attempt to use their good offices to negotiate a settlement, and some make a rule of never accepting work in such circumstances – reasoning, perhaps, that they may themselves be glad of reciprocal support on some future occasion, or that a client who has defaulted with one accountant may do so to another.

When communication is excused

To the general duty of professional communication, as with other general rules, there are exceptions. Communication is normally regarded as obligatory only in the case of a direct replacement in some sphere of professional activity. It sometimes happens that a client may approach a practitioner for special work *additional*

The first article in this series – 'On Fees' – appeared in the issue of August 10th.

to that already being performed by another accountant who is to continue in his position, and may adduce reasons for not wishing one firm to be aware of the instructions given to the other. In such a case, provided that no element of replacement exists, communication becomes a matter of courtesy rather than of obligation; and an accountant in this position should consider whether the reasons given by the client are sufficient to excuse him from communicating, and whether he feels able to accept instructions in the circumstances of the particular case.

The duty of communication may also be excused if the succession is not immediate – for example, if there has been a change in the client's circumstances and he last consulted an accountant several years ago.

It is not inconceivable that a client, for reasons of his own, may attempt to deceive a proposed new accountant by denying that he has been previously represented. The possibility of disciplinary action against an accountant who acted in good faith on such a misrepresentation is perhaps remote, but cannot be excluded; no doubt the body concerned would consider whether the accountant had acted reasonably, or whether he had acquiesced too readily in circumstances which should have put him upon inquiry.

Client's interests

Embarrassment may be caused if the outgoing accountant fails to reply promptly to his successor's letter – particularly if the work is urgent. The client's interests are, of course, the first consideration; and if approaches by letter and telephone have proved fruitless, it is permissible for the new accountant to write a further letter, stating that in the absence of a reply within a fixed time he will assume that no professional reason exists and will act accordingly.

From what has been said about the purpose of the normal professional communication, it will be realized that it is not sufficient for an accountant to inform his successor that professional reasons do exist without specifying their nature; he must be prepared to substantiate his reasons, although he may prefer to do so at an interview rather than by letter.

The question has been raised of whether an unfavourable response to a professional communication would entitle the client to redress in defamation. It is not within the terms of this article to examine such defences as 'justification' and/or 'qualified privilege', but in practical terms the present writer regards such a contingency as remote. There appears to be no parallel reported case, and the Courts would probably require some clear evidence of detriment to the public before attempting to overturn an accepted principle which is of long standing.

It has also been asked whether the duty of communication exists only within the accountancy profession, or whether it should be extended – for example, to the transfer of taxation work from banks or firms of solicitors. The best answer appears to be that, wherever the duty ceases, the outgoing practitioner will in all probability appreciate the courtesy of hearing promptly from his successor. Courtesy is seldom misplaced, and in the present context may yield its own reward in the form of useful information.

Personal loyalties

It is quite common for the smaller client to regard 'his accountant', for all practical purposes, as Mr X – the manager or senior clerk who takes charge of the job each year and who deals with his routine queries as they arise – rather than some unknown partner who remains for much of the time in the background. If Mr X moves to another firm, or begins to practise on his own, the client may quite reasonably prefer his affairs to be dealt with by a man to whom they are already familiar, rather than by some newcomer.

The situation which arises when 'the job follows the clerk' is one in which feelings run very high indeed on occasion. Mr X's late employer, who stands to lose the client, may well feel that the clerk has abused his position to his own advantage and sometimes this resentment spills over into his reply to his successor's formal communication – possibly even coupled, in an extreme case, with a strong hint that the client has been solicited, a threat to report the case to the appropriate professional society, or a refusal to hand over the client's books and papers.

Solicitation is seldom an easy charge to substantiate to the satisfaction of a disciplinary tribunal, but it is one of the gravest and most unpleasant allegations which can be brought against a professional man, and should never be adumbrated without a very strong prospect that corroborative evidence will be forthcoming. Suspicion alone is not enough and the client has a perfect right to make whatever arrangements he thinks will best meet his own needs.

Some professional firms adopt the practice of requiring their senior staff to enter into a covenant against acting on their own behalf for any client of the firm, or practising in their own name within a stipulated radius of the firm's offices, for a stated term. It is well known that such restrictive covenants are not favoured by the Courts and will only be upheld if the restraint is reasonable. What is 'reasonable' in any one case must depend upon the circumstances of that case – for example, the nature and size of the firm's practice, the addresses at which it is carried on, the extent of the individual's responsibilities within the practice, the number of clients affected, and so on. Any attempt to impose an unreasonably wide restraint must inevitably fail as the Courts will not attempt to substitute narrower limits.

The decision in *Sanders v. Parry* ([1967] 2 All E.R. 803) involved a firm of solicitors but has obvious implications for other professions. An assistant solicitor worked on the affairs of one of the firm's largest clients, and whilst so engaged became aware that the client was dissatisfied with the service he had received from the firm. Shortly afterwards this assistant commenced practice on his own account and the client transferred his work to him. There was no evidence of solicitation by the assistant – rather it appeared that the client had taken the initiative in the transfer of work; but the Court found that the assistant owed a duty of confidence to his employers and was not entitled to withhold his knowledge of the client's dissatisfaction for his own benefit. In all the circumstances this duty had not been fulfilled, and damages were awarded against the assistant accordingly.

Whilst naturally expecting their members to observe undertakings freely entered into by them, the professional bodies generally will not accept the responsibility of enforcing restrictive covenants, as a legal remedy is available if the complainant so desires.

Changes in partnership

In most professional practices there are clients who are regarded by one or another of the partners as 'his' personal connection. Sometimes the appointment is in the name of an individual partner rather than of the firm, although in the normal course of events the work is done by the firm's staff and fees are paid into the firm's account. This situation assumes considerable importance in the event of one or more partners finding it necessary for any reason to withdraw from the firm and electing to practise elsewhere. Naturally in such a case the outgoing partners desire to keep the benefit of their personal connection, and indeed it is usual for clients to be informed by letter of changes in the composition of the firm. But unless agreement can be reached on the form of such a notification to clients, and the identity of those clients for whom the outgoing partners are to continue to act, a most unhappy position may be reached in which the outgoing and the continuing partners are making charges and counter-charges against one another of seeking to influence and alienate each other's clients.

It has been said in the past that the selection of a business partner calls for no less care and discrimination than the selection of a marital partner. This analogy holds good to the point of dissolution, and the end of a marriage or any other partnership provokes all too often a flood of mutual recrimination in which it is rare indeed for either party to have a monopoly of vice or virtue.

The professional disciplinary tribunals are not the most appropriate means – and in the view of many accountants are not intended – for settling a dispute between partners. However, if the views of the opposing factions are irreconcilable, it may be possible to invite the appropriate professional body to nominate one or more arbitrators, in preference to the prolongation and eventual litigation of a dispute which can only embarrass the profession at large no less than those directly concerned.

A professional practice may sometimes be offered for disposal in two or more blocks rather than as a whole. In that event, the inclusion of a particular client in one list rather than another (or, by innocent error, in more than one list) can cause annoyance and misunderstanding. It must also be anticipated, in any negotiation for the sale or purchase of a practice, that some clients are not prepared for their business to be transferred *en bloc* to the 'new management' and prefer to make their own arrangements elsewhere.

Transfer of information

Once a client has indicated his intention of transferring, no useful or legitimate purpose is served by seeking to influence his decision or by placing obstacles in the way of a transfer: it could, indeed, be discreditable to do so. It is surely more in keeping with the dignity of the profession, to say nothing of the interests of the client, to deal with a successor's request for transitional information as expeditiously as possible.

In considering what material should be transferred to a successor, it must be remembered that the general title of 'records' or 'books and papers' covers a variety of documents to which different considerations apply. The client's own books of account, vouchers and correspondence are his own property and should be returned to him at once unless they are subject to a lien for unpaid fees; this, it is suggested, must also extend to such records as the private ledger which for many 'incomplete-record' jobs is maintained in the accountant's office.

The position of correspondence between an accountant and the Inland Revenue on a client's affairs was considered by the Court of Appeal in *Chantrey Martin & Co v. Martin* ([1953] 3 W.L.R. 459 and *The Accountant*, issue dated July 25th, 1953), when it was held that the client was entitled to the whole of this correspondence (both the file copies of outgoing letters and the originals of those received) on the basis that the accountant was acting as the client's agent for the purpose of negotiating his liability to tax. In consequence of this ruling, the tax correspondence file of a departing client should be sent either to him or his new accountant as he may request, although there appears nothing to prevent the old accountant from taking copies for his own retention if he so desires.

An accountant's working papers generally are his own property and not that of the client; this again is in accordance with the *Chantrey Martin* decision. There is no exhaustive list of documents falling under the title of 'working papers', although this would normally include, e.g., schedules prepared from incomplete records, certification of bank balances and other assets, draft accounts and reports and notes and calculations relating thereto. An accountant's file of correspondence with his client is also the accountant's property (*re Wheatcroft*, 6 Ch.D 97).

Notwithstanding the legal position, the majority of accountants are prepared to supply reasonable information from their own working papers to a successor. A few firms make a charge for supplying such information; this is not a general practice – and sometimes causes

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annoyance out of proportion to the sum involved – but cannot be considered unethical if the charge bears a reasonable relation to the amount of work involved in extracting information.

In dealing with the smaller client, it is occasionally found that no private ledger as such exists and the whole of the information necessary for preparing final accounts is amongst the accountant's working papers. If the outgoing accountant is not disposed as a matter of courtesy to facilitate the transfer, he may then contend that he has handed over all those records to which the client is legally entitled and that he is not obliged to divulge the contents of his own working papers. Such behaviour is fortunately very rare indeed, and it is difficult for a professional body to take action against a member who may prima facie be within his legal rights, and who on that basis is guilty only of discourtesy.

As a practical solution it is suggested that an accountant whose working papers are the only source of information (such as that normally found in a private ledger) to which the client would have a right of access, should be prepared at the least to allow his successor reasonable facilities to inspect and copy the appropriate papers without charge.

Control of Company Directors

by BRYAN J. HISCOCK, B.A., A.C.A., and MICHAEL E. SCORGIE, B.Com.

IN a public company limited by shares the board of directors act as the central governing body which controls that company's affairs. The law does not define the exact functions and duties of a board of directors, though in the United States the National Industrial Conference Board has set out the following areas of responsibility which appeared to have general acceptance.

> '1. To establish basic objectives and broad policies of the company;
> 2. To elect the corporate officers, advise them, approve their actions and audit their performance;
> 3. To safeguard and approve changes in the corporate assets;
> 4. To approve important financial matters and to see that proper reports are given to stockholders;
> 5. To delegate special powers to others on matters requiring board approval;
> 6. To maintain, revise and enforce the corporate charter and by-laws;
> 7. To perpetuate a sound board.'
> (*vide* S. R. Brown; *Company Directors*, second edition, Law Book Company, Sydney 1965).

It can be appreciated that for a board of directors to be able successfully to carry out these duties and responsibilities they require considerable ability through a wide range of 'managerial' skills.

Who, then, form the section of the community known as company directors? Referring again to *Company Directors*, S. R. Brown says at page 1:

> 'The class of persons who are company directors is large in number, and there is great diversity in the type of person who compose it. For directors, there are no prescribed courses of study, no examinations and no Government registration requirements. Persons are appointed to boards of companies because of their ability, personal wealth, influence, experience, or political, social or family position. With such a body of persons it is inevitable that, in and about the affairs of their companies, many persons will act recklessly, many will act incompetently, and some will act fraudulently.'

Directors control, on behalf of shareholders, valuable assets and therefore it is essential that there should be some protection for shareholders against recklessness, incompetence and fraud on the part of directors.

Fraud, recklessness and incompetence

Over the years the Legislature has continually sought to strengthen the provisions of the Companies Acts aimed at the prevention of fraud. They specify penalties for conviction for fraud and, more importantly, they seek to prevent the occurrence of fraud. Some of the means by which they attempt to do this are the compulsory disclosure of information to shareholders, the subjection of companies' books and records to independent audit, and the wide supervisory powers of the Board of Trade.

Section 35 (1) of the 1967 Companies Act is a significant example of the intention of the Legislature concerning the prevention of fraud. By this section the Board of Trade is empowered to petition to have a company wound up on the grounds that it is 'expedient in the public interest', if the Court thinks that it is just and equitable for it to be so wound up. The powers extended to the Board of Trade by this section are particularly wide but the President of the Board of Trade justified this in Parliament on the ground that cases had arisen in the past where fraud was suspected but the Board had been unable to act because none of the requisite conditions had been fulfilled. (*The Accountant*, December 16th, 1967, page 772.)

Unfortunately there is little effective protection against recklessness or incompetence of directors. In theory, shareholders can protect themselves through their voting power at annual elections of the board. If they believe any of the directors to be unsuitable they can vote for their replacement or removal. This power to control was commented upon in the report of the Cohen Committee (Cmd 6659, paragraph 7 (*e*)) as follows:

> 'The illusory nature of the control theoretically exercised by shareholders over directors has been accentuated by the dispersion of capital among an increasing number of small shareholders who pay little attention to their investments, so long as satisfactory dividends are forthcoming, who lack sufficient time, money and experience to make full use of their rights as occasion arises and who are, in many cases, too numerous and too widely dispersed to organize themselves.'

Whilst, as the Jenkins Committee subsequently observed in its report (Cmnd 1749, paragraph 106), 'the description of "the control theoretically exercised by shareholders" as "illusory" is perhaps now something of an over-statement', it is still basically true.

We consider that the situation is partly due to the paucity of information usually available to shareholders regarding the suitability and past performance of candidates who submit themselves for election to the board. If this point of view is accepted, then it follows that it is too much to expect many shareholders to cast a vote when there is a contested election. Thus the lack of information currently available regarding the competence of directors prevents shareholders from acting in their own best interests. This also has important implications for the community at large, for there is likely to be inefficiency in the use of national resources controlled by corporations.

Cost of director inefficiency

When a company crashes it is often possible to attribute the failure to mismanagement. However, considerable losses can also occur through mismanagement without its resulting in company failure and liquidation. The difference between the profits a company *should* have made and the 'satisfactory' profits it *has* made, can be just as important to shareholders as the more publicized losses from company failures. Unfortunately, the cost of such inefficiency cannot be assessed.

The argument that shareholders have nothing to grumble about if they receive 'a fair return' on their capital is patently inadequate although, as the Cohen Committee pointed out, shareholders often pay little attention to their investments if they receive a satisfactory dividend.

Potential protection

Present law regards the shareholder as the controller of the board of directors. The law could be made more effective by the publication of information on which the shareholders could make a judgement concerning the efficiency and competence of the directors.

Such information would have to extend far beyond the usual accounting statements. There is more to good management than can be reflected in financial accounts. Factors to be considered would include technology, labour relations, executive calibre and training, actual and potential productivity.

It is unlikely, however, that the publication of such information alone would really solve the problem, because many shareholders lack the necessary ability and knowledge of business to be able to make skilled judgements. They need someone who can investigate the company's affairs and then positively report on the suitability of the board.

The solution of this problem, we believe, is in a report to shareholders by some impartial person or persons with ability and experience in management. Just as the board of directors can keep a close eye on the top level of management of a company, calling in management consultants if they feel this to be necessary, so should shareholders be in a position to assess their directors by having someone to report on them.

Who could report?

The law might be amended to require auditors to extend their reports to include director efficiency. However, auditors are trained in accounting to enable them to judge a company's accounting methods, its annual statements and their compliance with the law; they usually have no training in management.

In course of time such experience could no doubt be gained so that the function of the auditor could also include the audit of directors' ability. In some countries auditors already have such a responsibility. For example, in Sweden and Finland it is the duty of auditors to audit the books and the management and to report to shareholders as to whether the board of directors may be 'relieved of responsibility' for their actions – in other words, be given a 'clean ticket'. The auditors may also comment on such matters as 'loose organization, lack of internal control in vital sections, too generous lending or extension of credit likely to result in losses' without expressing an opinion.[1] In France 'the auditors may criticize any action taken by the board of directors'.[2]

Under existing English law the position of the auditor is quite different. In *Re London & General Bank Ltd* ([1895] Acc. L.R. 173), Lindley, L.J., said:

> 'It is no part of an auditor's duty to give advice, either to directors or shareholders, as to what they ought to do. An auditor has nothing to do with the prudence or imprudence of making loans with or without security. It is nothing to him whether the business of a company is being conducted prudently or imprudently, profitably or unprofitably';

One way shareholders could possibly get a report concerning the efficiency and competence of the directors under English company law would be through sections 164 and 165 of the 1948 Companies Act, which deal with the appointment of inspectors. Under section 164:

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[1] Börje Forsström; 'Auditing the Management', *The Accountant*, May 24th, 1958.

[2] E. M. Church; *Business Associations under French Law*, Sweet & Maxwell, London 1960, page 402.

(1) The Board of Trade may appoint one or more competent inspectors to investigate the affairs of a company and to report thereon in such a manner as the board direct:

(a) in the case of a company having a share capital on the application either of not less than two hundred members or of members holding not less than one-tenth of the shares issued;

(b) in the case of a company not having a share capital, on the application of not less than one-fifth in number of the persons on the company's register of members.

(2) The application shall be supported by such evidence as the Board of Trade may require for the purpose of showing that the applicants have good reason for requiring the investigation, and the board may, before appointing an inspector, require the applicants to give security to an amount not exceeding one hundred pounds, for payment of the cost of investigation.

Section 165 provides that:

> Without prejudice to their powers under the last foregoing section, the Board of Trade:
>
> (a) shall appoint one or more competent inspectors to investigate the affairs of a company and to report thereon in such manner as the Board direct, if:
>
> (i) the company by special resolution; or
>
> (ii) the Court by order;
>
> declares that its affairs ought to be investigated by an inspector appointed by the Board; and
>
> (b) may do so if it appears to the Board that there are circumstances suggesting:
>
> (i) that its business is being conducted with intent to defraud its creditors or the creditors of any other person or otherwise for fraudulent or unlawful purpose or in a manner oppressive of any part of its members or that it was formed for any fraudulent or unlawful purpose; or
>
> (ii) that persons concerned with its formation or the management of its affairs have in connection therewith been guilty of fraud, misfeasance, or other misconduct towards it or towards its members; or
>
> (iii) that its members have not been given all the information with respect to its affairs which they might reasonably expect.

Section 38 of the Companies Act 1967 has altered this section to have effect as if, after the words 'is being' there were inserted the words 'or has been', and the power of the Board under this paragraph shall be exercisable with respect to a body corporate notwithstanding that it is in course of being voluntarily wound up.

The provisions at first glance seem quite sufficient to enable a shareholder or group of shareholders to call for a report on the competence and efficiency of the board of directors. However, the use of section 165 would be difficult, because for a special resolution to be adopted a three-fourths majority of votes cast is required. Such a majority is unlikely to be obtained without the support of the directors, nor is the seemingly small figures of two hundred members or members holding not less than one-tenth of the shares issued as required by section 164, unless there was some startling evidence that the company needed reorganization.

The difficulty of getting people to come forward and take action provided for by the Companies Act was stated by Mr Harold Wincott, editor-in-chief of *The Investors Chronicle*, in evidence before the Jenkins Committee. He said:

> 'Generally one of the difficulties we find is that people are not always willing to come forward. They go and make an ass of themselves and they do not want publicity. They will come to us or write to us privately and we can pass it on to the Board of Trade, but I think very often they do not want to appear publicly'. – Minutes of Evidence, paragraph 194.

Even in cases where a sufficient amount of support could be gained to make an application under section 164, the Board of Trade has the discretion of appointing an inspector or not. The only guide as to what constitutes 'good reason' under this section would appear to be those set out in section 165 (*b*). Of these the most promising would appear to be (iii) that its members have not been given all the information with respect to its affairs which they might reasonably expect. There is no way of telling whether a report on the competence and efficiency of the board of directors would be considered to be information that members might reasonably expect.

Whether sections 164 and 165 do provide a means of obtaining the desired report is not certain. What is certain, is that these sections have rarely been used for any reason at all, probably because the degree of shareholders' support required is too great.

Conclusion

We feel that shareholders should receive some report on the efficiency and competence of the directors made by some independent qualified person or persons. At present the only conceivable way that such a report could be obtained is through sections 164 and 165. At best the use of these provisions for such a purpose would be cumbersome. We, therefore, suggest that company legislation should be amended in order that a report on the competence and efficiency of directors should be compulsorily included with the annual accounts presented to shareholders.

As to who should make this report, it is possible that in the firms of management consultants there is already a nucleus of such skilled persons, and as many management consultants are qualified accountants in, or have close connections with, auditing firms, there already exists the possibility of coupling the audit of both accounts and management.

Taxation Cases

Full reports of the cases summarized in these columns will be published, with Notes on the Judgments, in the 'Annotated Tax Cases'

In re Lynall deceased

In the High Court of Justice (Chancery Division)

July 17th, 1968

(Before Mr Justice PLOWMAN)

Estate duty – Valuation – Shares in private company – Hypothetical sale – Restrictions on transfer – Small dividend policy – Possible surtax directions – Ratio of assets to liabilities – Possible public flotation – Whether intrinsic value test to be applied – Whether unpublished information relevant – Whether information elicited on inquiry relevant – Finance Act 1894, sections 7 (5), 10 – Income Tax Act 1952, section 245.

The deceased died on May 21st, 1962, possessed of 67,880 ordinary shares of £1 each in a private company carrying on the manufacture of cold forged fasteners including screws, bolts and rivets. The shares represented an interest of 28 per cent in the total of 241,700 issued shares. All the shares were held by the Lynall family except 200 shares held by the general manager. He and the family shareholders were also the directors. The company's articles of association required that an outgoing shareholder should offer his shares to the remaining shareholders at a fair value; but at the time of the deceased's death a value had never been fixed.

In the last accounting period before the deceased's death the company's turnover had risen from £979,000 to £1,607,000, and the profits available for dividend from £35,456 to £135,496. The policy of the board had always been to pay a small dividend, and to plough back the balance of the profits. The rate of dividend for each of the five periods prior to the death had increased, and for the period ended July 31st, 1961, was 15 per cent. The dividend policy was influenced by the desire to avoid a surtax direction. Between 1957 and 1961 the fixed assets at cost less depreciation had risen from £259,376 to £396,753, and the development had been financed entirely out of accumulated profits. The cash resources had increased from £218,783 to £263,200. The only liability for borrowed money was a mortgage of £12,000. The ratio of current assets to current liabilities had gone up from 1·7 : 1 to 2·4 : 1. At July 31st, 1961, the company was committed to capital expenditure estimated at £105,000.

The information above was available to a prospective seller and buyer of shares in the company at the date of the death. But in addition to (1) the accounts for the period ended July 31st, 1962, and (2) the chairman's speech on the accounts for the previous period, there were other documents not available, namely (3) minutes and other documents which had come into existence in the deceased's lifetime, and which related to the raising of money for paying future estate duty and to a possible public flotation. If a prospective purchaser had inquired as to the profit and dividend for the period to July 31st, 1962, he would have been told that they were expected to be the same as for the previous period. The possibility of a public issue became more and more remote, and an inquirer would not have been given access to the documents relating to that matter. There was, however, a public issue of 27½ per cent of the shares in July 1963, at £7 16*s* a share, and the issue was over-subscribed 22 times.

The Inland Revenue estimated the open market price of the deceased's shares at £5 10*s* a share; the executors' estimate was £2 to £2 15*s*.

Held: (1) the documents at (1), (2) and (3) above were not relevant; (2) the principal factors affecting the valuation of shares such as the deceased's shares were the dividend yield expected by the market for such a company; the prospective dividends; and the possibility of a public flotation; (3) the first-mentioned factor was irrelevant in the circumstances of this case; (4) on the evidence the estimated value of the deceased's shares was £3 10*s* a share; (5) if the excluded documents could be looked at, this figure would be £4 10*s*.

In re Weston's Settlements

In the Court of Appeal – July 31st, 1968

(Before THE MASTER OF THE ROLLS (Lord DENNING), Lord Justice HARMAN and Lord Justice DANCKWERTS)

Capital gains tax – Estate duty – English settlements – Trustees in England – Assets in England – Settlor and beneficiary moved to Jersey – Application to substitute Jersey settlements and Jersey trustees – Claim to be domiciled in Jersey – Trustee Act 1925, section 41 – Finance Act 1949, section 28 – Variation of Trusts Act 1958, section 1 – Finance Act 1965, section 25 (1).

In 1964 a settlor made two settlements, one in favour of his younger son and the other on the marriage of his elder son. Both settlements were made in England, and the trustees resided there. The settled assets were almost exclusively shares in an English company of which the settlor was chairman.

The settlor and his family lived in England until January 1967. In December 1966, he purchased a house in Jersey, and between January and May 1967, he made four short visits to Jersey; and since August 1967, he and his wife and his sons had lived there. The settlor claimed to be domiciled in Jersey.

A summons under section 41 of the Trustee Act 1925, and section 1 of the Variation of Trusts Act 1958, was taken out on behalf of the settlor for (i) the appointment of two persons resident in Jersey as trustees in place of the existing trustees, (ii) the insertion in the settlements of a power for the new trustees to transfer the trust assets to new trusts made in Jersey. This would avoid capital gains tax because of section 25 (1) of the Finance Act 1965, and estate duty by virtue of section 28 of the Finance Act 1949.

Held (affirming the judgment of Mr Justice Stamp): the applications should be refused because (i) no member of the family had become domiciled in Jersey, (ii) the Court was not satisfied that any of the beneficiaries intended to continue living there, (iii) the only benefits to be achieved were entirely of a fiscal character.

Iolanthe Revisited

Act 1, Scene II – Front of part of a row of semi-detached houses, all of which look to be in the need of a coat of paint.

The front door of the centre house opens slowly, and a taxpayer pauses on the threshold, as though fearful that if he came right out he might never be able to get in again. Dirty, baggy, grey flannel trousers protrude beneath his dilapidated raincoat, which he clutches about him because it has no buttons, but which from time to time flaps open and he is seen to have no shirt.

Recit. – Taxpayer

Tax, unextinguished, robs me of my rest:
Tax, hopeless tax, my bank account encumbers:
Tax, nightmare-like, lies heavy on my chest,
And waves itself into my nightly slumbers.

Song – Taxpayer

When you're lying in bed with a pain in your head and repose is by worry affected
Since your income return, you've been sorry to learn, your Inspector has sent back rejected.
There are too many blanks, and each of them ranks for completion with 'NIL' entered clearly –
At least so he writes, but a fear it incites that the facts when disclosed will cost dearly.
But that's not the worst, for your memory's cursed by allowance claims missed through senility
On that out-of-date plant, or some indigent aunt, or for World War alleged disability.
Well, you get some repose in the form of a doze but you'd better by far not be nodding,
For your slumbering teams with such nebulous gleams of subjects on which you've been plodding
As an unfurnished letting, and winnings from betting, and the football pool prizes concession,
And income arising, with no tax assizing – as reaped by the oldest profession.
Then you find you're the host somewhere down on the coast of a Revenue officer's party,
They're a ravenous hoard just returned from abroad and their thirst and their appetite's hearty.
They shun *pomme de terre*, and demand *caviare*, *de foie gras*, indeed *any*thing French that is fructible –
The cost is immense, but they say this expense from your next income tax is deductible.
They go off for the day, that is all except J, who you now realize is their leader,
And he seems very nice, so you ask his advice, and he hands you *The Juvenile Reader*.
There are hundreds of pages, the harvest of ages, for it starts with the tax of the Norman,
And continues for hundreds of years with the dunning alike of the rich man and poor man.
The tunnage and prisage (like wine tax of *this* age) taxed export of skins and of leather,
The wardships and knights' fees, disgraceful monop'lies, wool from the ewe or the wether.
And the soap tax and salt tax, the beer tax and malt tax (of snoopers one had to be wary),
And the window taxation, the bane of the nation, and hearth tax of William and Mary.
All *this*, it is true, is of no help to you, for you need up-to-date information,
But you find at the end there's a fiscal appen-dix which deals with our present taxation.
And you open your eyes very wide with surprise, with your fingers agrope rather clammily,
For it's written in babyish language as used by that ghastly Swiss Robinson Family.

Reads from book

Oh mother, mother, tell to me
What might a statutory income be?

If A or B applied to us
Would dad be saved from all this fuss?

And does one's income tax enlarge
Whenever there's a balancing charge?

Since daddy always says his income's small
How comes he gets no para. 29 relief at all?

Sings

By now you and J have called it a day, and flown back to the heart of the nation,
Resolved that by hook, or even by crook, you'll get at the facts of taxation.
Pace the book you disdained you've a pamphlet obtained, which you notice is numbered eleven –
It would seem in your dream to be more on the beam for anyone aged over seven.
So you labour like mad on a huge writing pad and compute with repeated correction,
And you wish to high heaven that pamphlet eleven, which causes you utter dejection.
Those shares which you bought longer since than you thought, how *can* you remember the prices?
On your soul, you declare, it would make a saint swear, for the problem most certainly nice is.
Then an R.A.F. flier arrives with a wi-re, which informs you that you have inherited
A loss-farm in Fife, from an aunt of your wife, just deceased, which you feel you've not merited;
The estate duty's hell, and you know you must sell, so you pedal away on your bicycle
And reach your attorney at end of the journey, with hands frozen stiff as an icicle.
But the capital gains tax can even *his* brain tax, and you're just on the point of despairing
When you fall out of bed on the top of your head and come wide awake rudely swearing
And all you remember, twixt now and December, should anyone make a deliberate mistake to lower the rate, or claim a rebate, or repayment invite of more than his right, he'll be tracked in his rounds by the Revenue's hounds

(deep breath)

And-liable-on-summary-conviction-to-imprisonment-for-a-term-not-exceeding-six-months-or-a-fine-not-exceeding-one-hundred-pounds.

John Brett.

The Importance of Being Three

by R. F. J. DEWHURST, M.A., A.C.A.

FOR some years now the pressure on companies to merge has been considerable. This process started first in the aircraft, shipping and heavy engineering industries. It is easy to see why. The economies of large-scale production in, for instance, the aircraft industry are very substantial and involve large sums of money. The heavy investment necessary in research and development and in plant and machinery, before even one aeroplane comes off the line, will deter all but the largest enterprises. Once this investment has been made, the marginal cost of producing one extra plane is comparatively small; unit cost will decrease rapidly with increasing demand. It follows that to compete in the world market with the American giants such as Boeing, Lockheed and North American Aviation, size is essential.

So massive indeed is the scale, that the aircraft industry in Britain cannot really cope on its own. British Aircraft Corporation and Bristol Siddeley needed to join their French partners Sud and Snecma for commercial as well as political reasons to produce the Concorde. This pattern of a British airframe firm (B.A.C., Westland, Hawker Siddeley), a British jet engine (Rolls-Royce or its subsidiary Bristol Siddeley) and a French partner is by now familiar. It emphasizes the fact that in this particular industry, Britain's resources are not large enough to justify even three national units operating on their own.

Fighting size

Pressure from large American companies competing in world markets for a long while has been the main economic reason for mergers. Recently, however, with the consolidation of the economic side of the E.E.C. and the political exclusion of Great Britain, another potent factor has been added. British firms have now to deal with the huge combines being formed out of intra-European mergers as well as the U.S.A. giants. The only way to fight size is with size. Moreover, survival in the international market is crucial for a country like Britain which has a basic balance of payments problem.

It is mainly for the foregoing reasons, therefore, that the need to amalgamate into larger and even larger units arises, until the number of independent groups in an industry is reduced to around three. But the pressures are not solely commercial. The Government has long realized this economic need, and has applied what pressures it can on British industry. In fact, the lever that the Government can apply is very great, since the public sector accounts for almost half of the total economic activity.

The C.E.G.B., to take an example, is Britain's almost sole user of heavy electrical generators. The purchasing power that this gives is considerable. However, the central Government has not relied solely on this sort of pressure. Help and persuasion – and money – have been supplied by the Industrial Reorganization Corporation and similar organizations.

But too much success in creating mergers and streamlining activities unfortunately brings its own problems. If the number of units in an industry is reduced below three, then monopolistic or oligopolistic conditions will apply. This means that maintenance of unnecessarily high price levels is possible – a situation the Monopolies Commission was formed to deal with. So at the other end of the scale, too small a number of units is also a highly undesirable position.

Emerging pattern

To sum up, it seems that for most heavy industries not more than three, or at the most four, units are desirable on grounds of efficiency. With less than three, monopolistic problems arise. The pattern which is emerging is just three or four firms in each of the major industries.

To what extent is this pattern already evident? To start with let us consider the car industry. Until recently there were some dozen major producers of cars in Britain. There are now just four. Three of these – Fords, Vauxhall (G.M.C.) and Rootes (Chrysler) are U.S. firms, the fourth, the recent B.M.C./Leyland merger, is British; yet this huge concern still stands far behind the three big American companies in the world market, and is in fact only sixth in the world ranking. Without this necessary merger Britain would have had no company at all in the top ten.

It is easy to see this pattern of three appearing in large industries such as heavy electrical, electronics and computers. Sometimes its effect is masked as, for instance, in the oil industry where giants like Shell transcend national limits, or where the diversified interests of firms like G.E.C. and Plessey cut across industrial boundaries.

Sometimes the number of units in an industry is below three. The detergent industry is a good example of this: Unilever and Proctor & Gamble, taken together, practically comprise this industry. However, two is an unsatisfactory number from the competitive point of view, for if one wins this is a complete monopoly. Furthermore, two may well agree on a price system, whereas three are more likely to be genuinely competitive. Perhaps this is an extension of the old adage 'Two's company, three's a crowd'. Competition needs a crowd. The recent complaint about detergent prices to the Monopolies Commission and the undertakings that the two firms eventually gave would seem to bear this out.

So far we have confined our attention to industrial firms. We have reviewed the international market factors leading to larger units producing at lower costs. We have also seen there are valid reasons for not merging below this limit of three. Since international competitive considerations do not so directly affect institutions such as banks, insurance companies and jobbing firms, there seems no special reason why this rule of three should apply to them. Yet there is evidence that it does, or at any rate there is a trend towards it.

Take, for example, the joint-stock banks. For many years there has been the unchanging pattern of the 'Big Five' and 'Little Six'. Then the Westminster Bank and the National Provincial decided to merge. What effect did this have? There was a sudden round of talks and discussions both on the future of Lloyds and on further mergers, which, but for Government intervention and the adverse view of the Monopolies Commission, would have led to a 'Big Three'.

Much the same pattern can be seen in the insurance world. Here rationalization through mergers has for a long while been seen as essential, yet only fairly recently have these mergers taken place. Then again, in the jobbing field, the reduction to three units is almost complete (Wedd-Durlacher, Ackroyd, and Francis and Praed).

Although the economies of scale are considerable in the banking, stockbroking, jobbing and insurance worlds, it needed some outside impetus – some ripple from the industrial mergers – to disturb the placid waters of the *status quo*. The homostatic effect – the tendency for things to stay as they are – has been very strong; once, however, one large unit is formed by a merger operation, this is seen as a threat by the remaining units and a scramble for partners to measure up to the new rivals rapidly starts.

We have seen how this pattern of the 'Big Three' has spread from heavy industry to commercial institutions. How far will it go? Will the tendency for the larger firms of accountants to swallow up the smaller ones suddenly escalate? Is there not a parallel, too, in the proposals to integrate the main accountancy bodies into the three Chartered Institutes in the British Isles? And in similar trends towards amalgamation in the other professions?

One final point remains to be made. The advantages of size notwithstanding, there will always be a place for the 'little man' in industry and commerce. The small firm can adapt and adjust more quickly to changing demand. There is, too, the social need for an outlet for personal initiation and drive which the large firm cannot so easily provide.

When all this is said and done, however, it is still the case that, in the heavyweight class where the fighting is really in earnest, 'the importance of being three' is becoming well established.

Finance and Commerce

Whessoe sales

CONFORMING with the requirements of the new Act in so far as the reporting of group sales is concerned, posed a problem for the board of Whessoe Ltd, the company which designs and builds capital plant for the petroleum, chemical, gas and atomic energy industries. Naturally enough, allied to such business are interests in engineering and particularly in the manufacture of press tools, jigs, precision components and the like.

In the directors' report the sales value of work completed during the year to last March is stated at £15,297,020 against £16,094,795 in 1966–67. Of the latest figure, £3,073,382 related to overseas trading of the group and, of that, the sales value of direct export work completed during the year was £1,477,289, including £225,167 attributable to Aiton & Co which was acquired in June 1967. Aiton are fabricators and erectors of pipework and accessories. Had Aiton figures been included in 1966–67, the £16,094,795 would have become £21,095,000.

Those are the facts, but Mr John H. Lord, Whessoe's chairman, goes much further into the sales situation in his statement with the accounts. In the first place he considers an explanation is necessary 'in view of the apparently low figure for the year under review'. The main reason is a 'relatively low incidence of completions of large and long-term contracts compared with the previous year'.

Value of work done

'Sales', Mr Lord comments, 'represent the summation of invoices issued during the financial year in respect of work or goods delivered and, in the case of contracts, when finally accepted by our customers.' A large part of the group's orders span from two to five years and 'violent fluctuations in the figures can occur when invoices depend on the incidence of final completion of contracts'.

A relatively low, or high, incidence of completions of such contracts vitiates any comparison of percentages of profits earned on sales. But there is an attempt to clarify this anomalous situation by adding to the sales figure changes in the gross work in progress.

The resulting 'value of work done' gives, it is considered, 'a somewhat more accurate indication of the value of annual throughput'. This 'value of work done' figure is incorporated in the ten-year record, and £7,272,000 for increase in value of gross work in progress is added to the £15,297,000 of sales value of work completed, to make a total of £23,569,000 for value of work done.

The trading profit of £1,365,000 represents a 5·8 per cent rate of profit on work done. The return on net capital employed of £8,492,000 is 16·1 per cent. Incidentally, in the ten-year record there are two 1967 columns, one for Whessoe alone and one for Whessoe-cum-Aiton so that there can be a true comparison of 1967 and 1968 figures.

Improved profit margins

On the Whessoe-cum-Aiton basis, trading profits of £1,224,000 on a work-done figure of £25,281,000 meant a return of 4·8 per cent on work done and 14·7 per cent on assets. There was therefore an improvement in the profit margins earned in 1967–68 but in the board's opinion 'not such as yet to give an adequate return on the capital employed, the risks undertaken, and the need for further investment in research and modern facilities'.

But the question of adequately reflecting turnover was less than half the battle of the Whessoe reporting this year. As already stated, Aiton & Co was taken over during the current year and, soon after the close of the year, Whessoe bought the South Works, Stockton-on-Tees, of Ashmore, Benson Pease & Co Ltd, including work in progress and stocks to a total of £2,877,551, financed by a loan of £3,500,000 from the Industrial Reorganization Corporation

WHESSOE LIMITED

Balance Sheet of the Group
AT 30th MARCH 1968

Statement A
See Note 13
Comparative figures for 1967 had Aiton & Co. Limited been consolidated at 31.3.67

	Notes	1968		1967		Statement A	
		£	£	£	£	£	£
ISSUED CAPITAL OF WHESSOE LIMITED	1						
4% Redeemable Cumulative Preference £1 Shares			250,000		*250,000*		*250,000*
Ordinary 5s. Shares			2,155,936		*1,914,436*		*2,148,811*
			2,405,936		*2,164,436*		*2,398,811*
RESERVES	3		4,515,467		*3,994,369*		*4,320,928*
LOAN CAPITAL							
7¾% Debenture Stock 1988/93	2		1,543,750		—		*1,543,750*
I.R.C. Loan			—		—		—
TOTAL CAPITAL AND RESERVES applicable to Whessoe Limited			£8,465,153		*£6,158,805*		*£8,263,489*
Represented by—							
FIXED ASSETS							
Land and Buildings	5		2,063,640		*1,760,462*		*2,038,762*
Plant and Machinery	5		1,741,657		*1,650,409*		*1,940,035*
Loose Tools	5		242,564		*294,534*		*318,057*
Investments	6		354,921		*253,679*		*345,247*
			4,402,782		*3,959,084*		*4,642,101*
CURRENT ASSETS							
Work in Progress	8	31,049,882		*17,334,321*		*22,777,853*	
Less: Instalments		25,716,661		*13,034,284*		*16,881,206*	
		5,333,221		*4,300,037*		*5,896,647*	
Stocks	8	1,648,784		*1,002,314*		*2,030,996*	
Debtors		4,582,937		*3,410,215*		*4,763,020*	
Bank Balances and Cash in Hand		59,161		*92,610*		*92,610*	
		11,624,103		*8,805,176*		*12,783,273*	
Deduct: CURRENT LIABILITIES AND PROVISIONS							
Secured Loans		—		*14,632*		*14,632*	
Creditors and Accrued Charges		3,284,732		*3,985,941*		*4,935,907*	
Taxation		20,770		*31,322*		*40,322*	
Corporation Tax due 1st January 1969		613,902		*274,000*		*409,000*	
Bank Overdrafts		2,520,575		*1,178,784*		*2,625,248*	
Acceptance Credits		750,000		*750,000*		*750,000*	
Provision for Contingencies		21,800		*21,800*		*21,800*	
Proposed Dividend		323,390		*287,166*		*287,166*	
		7,535,169		*6,543,645*		*9,084,075*	
			4,088,934		*2,261,531*		*3,699,198*
			8,491,716		*6,220,615*		*8,341,299*
Deduct:							
Tax Equalisation Account	4		23,500		*50,000*		*66,000*
Interest of Minority Shareholders			3,063		*11,810*		*11,810*
			26,563		*61,810*		*77,810*
GROUP NET ASSETS			£8,465,153		*£6,158,805*		*£8,263,489*

JOHN H. LORD, *Chairman*
M. J. NOONE, *Group Chief Executive*

The notes on pages [290–292] form part of these Accounts.

– the balance being used to reduce bank borrowings. The works have been put into a new company – Whessoe Stockton Works Ltd.

There was therefore obviously a need to report on Whessoe-cum-Aiton for 1967–68 to provide meaningful comparison on a similar basis for 1966–67, and also to indicate the position on a Whessoe-cum-Aiton-cum-Stockton basis.

Commendation

This has been most ingeniously contrived and informatively presented by providing an extra limb to the body of the accounts. On a double-page opening, the Whessoe Group balance sheet is to the left and the parent company account to the right. In the group accounts, in columnar style, the 1968 figures are Whessoe-cum-Aiton but the comparatives are Whessoe group alone.

But on a grey background there is a further column of figures on a flap the same size as one column of figures in the account. On one side of this flap there is Statement A – Comparative figures for 1967 had Aiton & Co Ltd been consolidated at March 31st, 1967', and on the other side Statement B – Comparative figures for 1968 had Whessoe Stockton Works Ltd been consolidated at March 30th, 1968'.

Our reprint of the figures below does not, and cannot, do justice to this method of presentation. The figures could have been provided otherwise in separate accounts but only with the use of much space and much turning of pages by the reader.

Presented in the way they are, the figures are immediately available to the eye – and to the hand – and whoever thought up the idea deserves a medal but will have to rest content with the doubtful privilege of the commendation of this column.

WHESSOE LIMITED

Balance Sheet of the Parent Company
AT 30th MARCH 1968

Statement B *See Note 13* *Comparative figures for 1968 had Whessoe Stockton Works Limited been consolidated at 30.3.68*			Notes	1968		1967	
£	£			£	£	£	£
		ISSUED CAPITAL	1				
	250,000	4% Redeemable Cumulative Preference £1 Shares			250,000		*250,000*
	2,155,936	Ordinary 5s. Shares			2,155,936		*1,914,436*
	2,405,936				2,405,936		*2,164,436*
	4,515,467	RESERVES	3		4,061,520		*3,824,071*
		LOAN CAPITAL					
	1,543,750	7⅜% Debenture Stock 1988/93	2		1,543,750		—
	3,500,000						
	£11,965,153	TOTAL CAPITAL AND RESERVES			£8,011,206		*£5,988,507*
		Represented by— FIXED ASSETS					
	2,870,630	Land and Buildings	5		1,571,189		*1,498,454*
	3,096,390	Plant and Machinery	5		1,200,051		*1,395,109*
	416,578	Loose Tools	5		212,760		*280,918*
	354,921	Investments	6		252,760		*252,659*
	6,738,519				3,236,760		*3,427,140*
		INVESTMENT IN SUBSIDIARY COMPANIES	11		2,889,640		*767,233*
		CURRENT ASSETS					
31,662,826		Work in Progress	8	23,406,314		*17,120,819*	
25,704,833		*Less:* Instalments		19,707,833		*12,964,371*	
5,757,993				3,698,481		*4,156,448*	
1,765,826		Stocks	8	650,327		*756,852*	
4,582,937		Debtors		2,474,960		*2,901,900*	
59,161		Bank Balances and Cash in Hand		26,822		*16,137*	
12,165,917				6,850,590		*7,831,337*	
—		*Deduct:* CURRENT LIABILITIES AND PROVISIONS					
3,284,732		Creditors and Accrued Charges		2,198,417		*3,637,850*	
20,770		Taxation		3,683		*325*	
613,902		Corporation Tax due 1st January 1969		424,000		*265,000*	
1,898,126		Bank Overdraft		1,232,994		*1,025,062*	
750,000		Acceptance Credits		750,000		*750,000*	
21,800		Provision for Contingencies		21,800		*21,800*	
323,390		Proposed Dividend		323,390		*287,166*	
6,912,720				4,954,284		*5,987,203*	
	5,253,197				1,896,306		*1,844,134*
	11,991,716				8,022,706		*6,038,507*
	23,500	*Deduct:* Tax Equalisation Account	4		11,500		*50,000*
	3,063						
	26,563						
	£11,965,153	NET ASSETS			£8,011,206		*£5,988,507*

The notes on pages [290 –292] form part of these Accounts.

JOHN H. LORD, *Chairman*
M. J. NOONE, *Group Chief Executive*

WHESSOE LIMITED

Profit and Loss Account of the Group
FOR THE YEAR ENDED 30th MARCH 1968

	Notes	1968	1967	
		£	£	
Sales value of work completed during the year	15	£15,297,020	£16,094,795	
TRADING SURPLUS, including a proportion of the estimated profits accrued on long-term contracts		2,194,662	1,680,138	
Add:				
Income from Investments—				
Quoted		2,019	—	
Unquoted		—	2,330	
Proportion of Investment Grants released	3	67,064	—	
		69,083	2,330	
		2,263,745	1,682,468	
Deduct:				
Interest payable on—				
Bank Overdrafts		205,786	122,027	
Acceptance Credits		55,433	43,695	
Auditors Remuneration		8,050	6,832	
Directors Emoluments	10	47,648	35,291	
Depreciation	5	519,639	422,364	
Hire of Plant and Machinery		61,732	149,036	
		898,288	779,245	
GROUP TRADING PROFIT		1,365,457	903,223	
Deduct: Debenture Stock Interest		85,381	—	
GROUP PROFIT BEFORE TAXATION		1,280,076	903,223	
Deduct:				
Corporation Tax 42½%		618,595	386,000	(40%)
Less: Double Taxation Relief		10,000	6,000	
		608,595	380,000	
Overseas Tax		26,873	41,584	
		635,468	421,584	
Tax Equalisation	4	42,500	22,500	
		592,968	399,084	
		687,108	504,139	
Add: Proportion of Loss in Subsidiaries applicable to Minority Interests		3,704	6,006	
GROUP NET PROFIT	9	690,812	510,145	
APPROPRIATION				
Dividends—				
4% Preference		10,000	10,000	
Ordinary—				
Interim, 7½%		161,162	143,582	(7½%)
Proposed Final, 15%		323,390	287,166	(15%)
		494,552	440,748	
INCREASE IN UNAPPROPRIATED PROFITS	3	£196,260	£69,397	

The notes on pages [290–292] form part of these Accounts.

WHESSOE LIMITED

Notes on the Accounts

1. Authorised and Issued Capital

	Authorised	Issued
	£	£
4% Redeemable Cumulative Preference £1 Shares	250,000	250,000
Ordinary 5s. Shares	2,750,000	2,155,936
	£3,000,000	£2,405,936

The Preference Shares are redeemable at 21s. per Share on 30th September 1975, but may be redeemed in whole or in part before then at the option of the Company.

During the year 966,000 Ordinary Shares have been issued as fully paid in connection with the purchase of Aiton & Co. Limited and Morgan & Brace Limited.

2. Debenture Stock

In June 1967, £1,543,750 7⅜% Debenture Stock, 1988/93 was issued in connection with the acquisition of Aiton & Co. Limited.

The Debenture Stock is secured by:

(i) a first floating charge on the undertaking, property and assets, present and future, including any uncalled capital of Whessoe Limited.

(ii) joint and several guarantees of Liquid Transfer Systems Limited, Express Tools Limited and Whessoe (Ireland) Limited.

(iii) joint and several guarantees given in April 1968 of Aiton & Co. Limited, Morgan & Brace Limited and Whessoe Project Engineers Limited and in May 1968 of Whessoe Stockton Works Limited.

The Stock may be redeemed in whole or in any part at par, together with accrued interest on or at any time after 30th June 1988, or may be purchased by the Company at any time.

Any Stock not previously redeemed or purchased by the Company will be repaid at par, together with accrued interest, on 30th June 1993.

3. Reserves

	Group	Parent
	£	£
At 30th March 1968		
(a) Share Premium Account	1,390,290	1,390,290
(b) Contingencies	500,000	500,000
(c) Others	371,658	244,600
(d) Unappropriated Profits	2,253,519	1,926,630
	£4,515,467	£4,061,520

Movements on Reserves during the year have been as follows:

	Group	Parent
(a) Share Premium Account	£	£
At 31st March 1967	1,054,643	1,054,643
Add:		
Excess of the Aiton Group net assets at 31st March 1967, less the costs of acquisition (£91,723) over the nominal value of the Debentures and Ordinary Shares issued	312,847	312,847
Excess of the agreed value of Ordinary Shares issued in part consideration of the acquisition of Morgan & Brace Limited over the nominal value	22,800	22,800
	£1,390,290	£1,390,290

(b) Contingencies

No movement has taken place during the year.

WHESSOE LIMITED

Notes on the Accounts

3. Reserves (contd.)

	Group	Parent
(c) Others	£	£
At 31st March 1967 Statutory Reserve in Whessoe S.A.	1,311	—
Capital Grants	207,256	176,998
Net Surplus arising on Consolidation	21,717	—
	230,284	176,998
Capital Grant Reserves of Subsidiary Companies acquired		
Aiton & Co Ltd.	13,712	—
Morgan & Brace Ltd.	7,712	—
Capital Grants received or receivable for the year	161,735	124,409
Sale of Technical Information	5,216	—
Surplus on devaluation of the Pound Sterling in respect of investments in overseas Companies	36,013	—
	454,672	301,407
Less:		
Purchase consideration in excess of net tangible assets of Subsidiary Companies sold and acquired	15,950	—
Proportion of Grants taken to Profit & Loss Account in the year	67,061	56,807
	83,014	
	£371,658	£244,600

The Estimated Investment Grants receivable on Expenditure to 30th March 1968, are included in Debtors.

No provision has been made for other Board of Trade Grants receivable which are credited when received.

Assets acquired are included in the accounts at cost, while the appropriate Grant is credited to Reserves. Each year a proportion of the Grant, related to the depreciation of the appropriate assets, is debited to Reserves and credited to the Profit and Loss Account.

d) Unappropriated Profits	Group	Parent
	£	£
At 31st March 1967	2,209,442	2,092,430
Increase/(Decrease) for the year ended 30th March 1968	196,260	(13,617)
Add: Taxation relief in respect of previous years	38,569	38,569
	2,444,271	2,117,382
Less: Provision for Capital losses in Subsidiary Companies	190,752	190,752
	£2,253,519	£1,926,630

4. Tax Equalisation Account	Group	Parent
	£	£
At 31st March 1967	50,000	50,000
Add: Increase on acquisition of Subsidiary Company	16,000	—
	66,000	50,000
Less: Transferred to Profit and Loss Account	42,500	38,500
	£23,500	£11,500

WHESSOE LIMITED

Notes on the Accounts

5. Fixed Assets

Group	Land & Buildings	Plant & Machinery	Total
Cost	£	£	£
At 31st March 1967	2,221,066	4,392,270	6,613,336
Additions during year:			
Acquired Subsidiaries Assets	470,273	903,034	1,373,307
Increase arising from devaluation	10,006	17,339	27,345
Expenditure for the year	163,196	285,076	448,272
	2,864,541	5,597,719	8,462,260
Less:			
Overseas Subsidiary Sold	37,350	13,567	50,917
Disposed of during the year	16,390	80,949	97,339
Adjustments in respect of Nigerian Subsidiary (*see note 11*)	54,035	127,786	181,821
	107,775	222,302	330,077
At 30th March 1968	£2,756,766	£5,375,417	£8,132,183
Depreciation			
At 31st March 1967	460,604	2,741,861	3,202,465
Provided in previous years on acquired Subsidiaries Assets	190,757	571,460	762,217
Increase arising from devaluation	1,226	9,001	10,227
Provided for the year	70,018	449,621	519,639
	722,605	3,771,943	4,494,548
Less:			
Amounts related to:			
Overseas Subsidiary Sold	2,060	9,283	11,343
Assets disposed of during the year	6,449	52,564	59,013
Adjustments in respect of Nigerian Subsidiary (*see note 11*)	20,970	76,336	97,306
	29,479	138,183	167,662
At 30th March 1968	£693,126	£3,633,760	£4,326,886
Net Book Value at 30th March 1968	£2,063,640	£1,741,657	£3,805,297

Land and Buildings include:	1968	1967
	£	£
Freehold Property	1,849,652	1,751,819
Leasehold Property on long lease	209,301	6,171
Leasehold Property on short lease	4,687	2,472
	£2,063,640	£1,760,462

Accumulated Depreciation includes that provided by Subsidiaries prior to acquisition.

Loose Tools are valued at cost, less amounts written off. Wastages are charged to the Trading Account.

WHESSOE LIMITED

Notes on the Accounts

5. Fixed Assets (contd.)

Parent Company	*Land & Buildings*	*Plant & Machinery*	*Total*
Cost	£	£	£
At 31st March 1967	1,919,926	3,921,444	5,841,370
Expenditure for the year	124,999	137,199	262,198
	2,044,925	4,058,643	6,103,568
Less Disposed of during the year	13,522	54,449	67,971
At 30th March 1968	£2,031,403	£4,004,194	£6,035,597
Depreciation			
At 31st March 1967	421,472	2,526,335	2,947,807
Provided for the year	44,681	313,609	358,290
	466,153	2,839,944	3,306,097
Less Disposed of during the year	5,939	35,801	41,740
At 30th March 1968	£460,214	£2,804,143	£3,264,357
Net Book Value at 30th March 1968	£1,571,189	£1,200,051	£2,771,240

Land and Buildings include:	1968 £	*1967* *£*
Freehold Property	1,561,596	*1,489,811*
Leasehold Property on long lease	6,092	*6,171*
Leasehold Property on short lease	3,501	*2,472*
	£1,571,189	*£1,498,454*

Future Capital Expenditure
The contracts for Capital Expenditure at 30th March 1968, not provided in these Accounts, amounted to approximately £93,000 Group (*1967 £150,000*), including £57,000 Parent (*1967 £130,000*). Expenditure authorised by the Board of Directors but not contracted for at 30th March 1968 amounted to £43,000 Group (*1967 £5,000*), including £10,000 Parent (*1967 £5,000*). The above figures exclude Capital Grants receivable.

6. Investments	*Group*		*Parent*	
Quoted	1968	*1967*	1968	*1967*
F. C. Construction (Holdings) Ltd.	£	*£*	£	*£*
124,272 Ordinary Shares of 5s. each at cost	£1,797	—	£1,797	—
Market Value	£45,825		£45,825	
Unquoted				
The Nuclear Power Group Ltd.				
150,000 Ordinary Shares of £1 each	200,826	*200,826*	200,826	*200,826*
The Nuclear Power Plant Co. Ltd.				
50,000 Ordinary Shares of £1 each	50,000	*50,000*	50,000	*50,000*
Press Whessoe Engineering Ltd.				
50 Ordinary Shares of £1 each	101	—	101	—
MeLeSco Manufacturing Co. Pty Ltd.				
100,000 Shares of A.$2	100,744	—	—	—
Other Investments	1,453	*2,853**	36	*1,833**
Total Cost	£353,124	*£253,679*	£250,963	*£252,659*
Directors Valuation	£432,417		£251,000	

*Including £1,797, F.C. Construction (Holdings) Ltd., unquoted in 1967.

Other investments represent holdings in Companies of less than one-tenth, in nominal value, of the Issued Shares of those classes of Shares held.
Further information related to Associated Companies is given on page 31. [*Not reproduced.*]

7. Contingent Liabilities
There are contingent liabilities to Subsidiary and Associated Companies under guarantees for bank accommodation and the performance of contracts. There is also a contingent liability to subscribe for Loan Capital (850,000 maximum) in The Nuclear Power Group Limited.

8. Stocks and Work in Progress
Stocks have been valued at the lower of cost and realisable value.
Work in Progress has been valued at the lower of cost (including overhead charges) and realisable value, plus a proportion of the estimated profits accrued on long-term contracts.

9. Group Net Profit
Of the Group Net Profit of £690,812 (*1967 £510,145*), the amount dealt with in the Accounts of the Parent Company is £480,935 (*1967 £493,217*).

WHESSOE LIMITED

Notes on the Accounts

10. Directors' Emoluments	1968 £	*1967* *£*
Fees	8,542	*7,500*
Managerial Emoluments	39,106	*27,791*
	£47,648	*£35,291*

Excluding contributions to pension funds, the remuneration of the Directors of the Company for the year was as follows:

Chairman	£3,500	*£2,500*
Highest paid Director	£13,362	*£13,313*
	Number of Directors	*Number of Directors*
Other Directors:		
Under £2,500	7	*4*
Over £2,500 and below £5,000	1	–
Over £5,000 and below £7,500	1	–
Over £7,500 and below £10,000	1	*1*
Over £10,000 and below £12,500	–	–
	10	*5*

No other employees have emoluments in excess of £10,000.
Seven Directors served for varying parts of the year.

11. Investment in Subsidiary Companies at cost, less provisions	1968 £	*1967* *£*
Shares	2,449,273	*202,770*
Add: Due from Subsidiary Companies	449,966	*567,517*
	2,899,239	*770,287*
Less: Due to Subsidiary Companies	9,599	*3,054*
	£2,889,640	*£767,233*

The Group Accounts at 30th March 1968 deal with the state of affairs and results of the Group, after providing such amount as, in the opinion of the Directors, will reduce the investment in Whessoe Engineering Limited, Nigeria, and W. Strikfeldt & Co. G.m.b.H. to the minimum amount realisable under conditions existing at the year end. No accounts have been received for the year ended 30th March 1968 in respect of Whessoe Engineering Limited which is situated at Port Harcourt and little information is available as to the Company's assets at that date.

Further information relating to Subsidiary Companies is given on pages 30–31. [*Not reproduced.*]

12. Overseas Subsidiary Companies
For the purpose of the Group Accounts, the profits or losses for the year of the Overseas Subsidiaries have been converted at an average rate of exchange. Net assets have been converted at the exchange rates ruling at Balance Sheet date.

To avoid delays in the preparation of Group Accounts the following Subsidiaries operated to a year ending on 31st December 1967.

Aiton Australia Pty Limited
Aiton Pipework & Process Plant Ltd.
Aiton Africa (Proprietary) Limited
W. Strikfeldt & Co. G.m.b.H.

13. Balance Sheet Statements A and B
As commented upon in the Chairman's Review, the figures appearing in Statements A and B have been inserted to inform Shareholders of the effect on the published Group Balance Sheets had the acquisition of Aiton & Co. been consolidated at 31st March 1967 and had the acquisition of Whessoe Stockton Works and the associated financing been completed and consolidated at 30th March 1968. Whilst the figures have been prepared with care and are believed to be accurate, they do not form part of the Statutory Accounts nor are they covered by the Report of the Auditors.

14. Accounting Period
The Accounts of the Company have been made up to the Saturday nearest to 31st March, i.e. 30th March. Accounts are prepared on a fifty-two week basis.

15. Sales Value
The sales value of work completed excludes inter company transactions.

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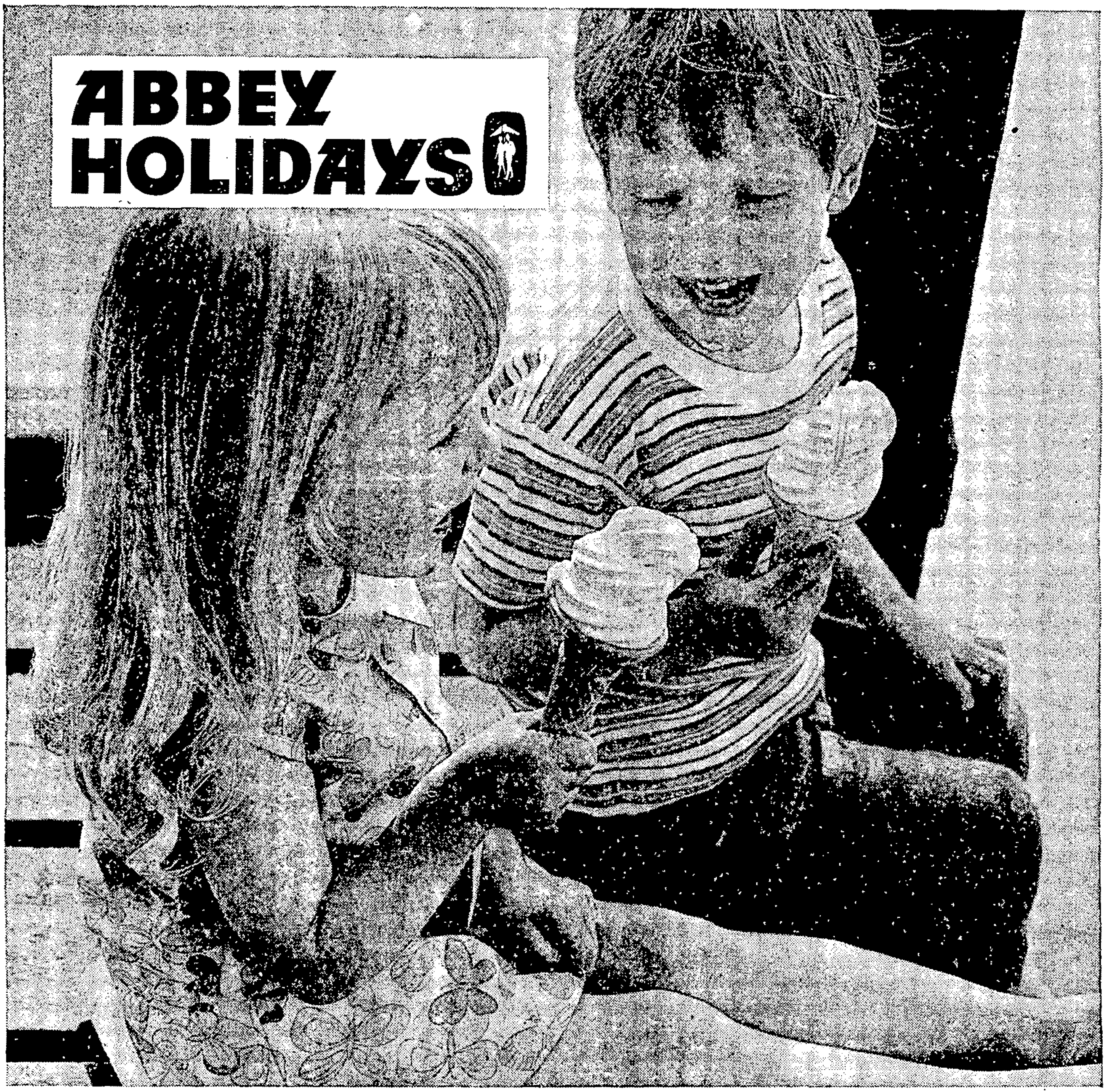

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CITY NOTES

THE situation in Czechoslovakia, for all its tragedy, is not of the kind to be translated into terms of more than temporarily cautious stock-markets. The City and the stock-market has to put sentiment aside when assessing such factors and the assessment must inevitably be that, the cold-war clock having been put back, the prospect of reduced armament expenditure has receded and by the same token the pressures of inflation increased.

Pressures against the US and UK balance of payments are increased as well, but since that factor has long been translated into inflationary rather than deflationary terms, the investment accent on equities has inevitably been strengthened.

Whether this is economically correct remains to be seen, but there is no doubting the fact that inflationary fear plus a weight of available investment funds which shows not the slightest sign of lessening, plus a shortage of stock which – despite new issues – is still acute, exerts and will probably continue to exert upward pressure on equity prices.

When unit trusts pull in something like £1·5 million of money every working day and are obliged to invest the bulk of it in equities, there is, in that one single factor alone, a considerable equity driving force. In the inevitable order of events there will some day be an equity bear market but it is difficult at this juncture to see the combination of events likely to enforce it.

* * * *

NOT even the National Institute's latest economic survey forecasting a current year balance of payments deficit of £600 million and a surplus of £250 million in 1969 – the one higher and the other lower than anticipated three months ago – can be calculated to cut much 'bear' ice in the stock-market. If those figures add up to yet another financial crisis – despite the Basle backing operation – then who invests in anything but equities?

The National Institute's suggestion that the Government should now get down seriously to consider some form of import restriction or, failing that, to the arrangement of a new delayed time-table for debt repayments, states both the obvious and the already contemplated. If there is any option the Government will opt for opting out of, it is probably that of debt repayments.

* * * *

THE Issuing Houses Association's rebuke of Morgan Grenfell will prove, it is hoped, the final chapter in the American Tobacco-Gallaher share dealing affair. It was duly noted in the City that the Chairman of the Association did not concern himself with whether or not the Take-over Panel's Code had been broken but with Morgan Grenfell's attitude towards the Panel and the subsequent statement of the Governor of the Bank of England. Disputing the referee's decision, the Chairman's letter to Morgan Grenfell made clear, is not the thing to be done. Last week in these notes it was maintained that 'there should be no more protestations of innocence', and the protestations rather than any early action were the Association's main concern. Morgan Grenfell have certainly taken the point and there, it is to be hoped, the matter not only rests – but ends.

* * * *

SHOULD the Plessey-English Electric affair become a pitched take-over battle the event will be the first real test of the City's attitude towards the spirit rather than the letter of the Take-over Code. Warburgs, acting for Plessey, and Lazards for English Electric, together with the stockbrokers on either side, will be very much in the battle front lines.

It will be decidedly interesting also to see, always assuming that the affair reaches the point, the manner in which English Electric reports to shareholders on the question of future profits and whether the board is prepared to go beyond the current year and next, even if the accountants are not.

RATES AND PRICES

Closing prices, Tuesday, August 27th, 1968

Tax Reserve Certificates: (28.8.68) Companies 4⅝%; 3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966	7%	Oct. 19, 1967	6%
Jan. 26, 1967	6½%	Nov. 9, 1967	6½%
Mar. 16, 1967	6%	Nov. 18, 1967	8%
May 4, 1967	5½%	Mar. 21, 1968	7½%

Treasury Bills

June 21	£7	3s	8·57d%	July 26	£7	1s	2·22d%
June 28	£7	4s	10·04d%	Aug. 2	£7	0s	4·48d%
July 5	£7	4s	9·73d%	Aug. 9	£6	18s	6·27d%
July 12	£7	3s	5·60d%	Aug. 16	£6	18s	1·79d%
July 19	£7	2s	5·25d%	Aug. 23	£6	19s	0·42d%

Money Rates

Day to day	5⅞–7%	*Bank Bills*	
7 days	5¾–6 $\frac{15}{16}$%	2 months	7⅜–7 $\frac{7}{16}$%
Fine Trade Bills		3 months	7⅜–7 $\frac{7}{16}$%
3 months	8½–9%	4 months	7⅜–7 $\frac{7}{16}$%
4 months	8½–9¼%	6 months	7⅜–7 $\frac{7}{16}$%
6 months	8¾–9½%		

Foreign Exchanges

New York	2·38 $\frac{27}{32}$	Frankfurt	9·57½
Montreal	2·56 $\frac{7}{32}$	Milan	1484
Amsterdam	8·68 $\frac{5}{32}$	Oslo	17·06
Brussels	119·73	Paris	11·87⅞
Copenhagen	17·93½	Zürich	10·27 $\frac{13}{16}$

Gilt-edged

Consols 4%	52 $\frac{11}{16}$	Funding 6% 1993	80⅞
Consols 2½%	33¾	Savings 3% 60–70	91 $\frac{9}{32}$
Conversion 3½%	45 $\frac{15}{16}$xd	Savings 3% 65–75	75
Conversion 5% 1971	92 $\frac{15}{16}$	Treasury 6½% 1976	95⅛
Conversion 5¼% 1974	90 $\frac{1}{16}$	Treasury 3½% 77–80	72½
Conversion 6% 1972	94 $\frac{25}{32}$	Treasury 3½% 79–81	68⅞
Funding 3½% 99–04	52 $\frac{3}{16}$	Treasury 5% 86–89	74⅛
Funding 4% 60–90	95⅞	Treasury 5½% 08–12	73⅛
Funding 5¼% 78–80	82 $\frac{11}{16}$	Treasury 2½%	32¾xd
Funding 5½% 82–84	81¼	Victory 4%	96⅝
Funding 5¾% 87–91	81½	War Loan 3½%	46⅞

Correspondence

Articled Clerks: SET and National Insurance

SIR, – It has not yet been possible for the Union to examine the full implications of the Council's statement, published in *The Accountant* on August 17th, advising principals how to save SET and National Insurance contributions in respect of their articled clerks. It is apparent that the following matters, some of which were not referred to in the statement, ought to be considered by articled clerks before they agree to sign the Council's recommended endorsement to their articles.

(*a*) 'Increasing remuneration during working periods' could be done by apportioning the agreed remuneration over the maximum working period. For example, an articled clerk who is due to receive £600 and two months' study and examination leave in a particular year would receive £60 per month during the 10 months of working period instead of £50 per month for 12 months. He should realize that if he receives an extra month's unpaid study leave, he will lose £10 unless he is paid this amount to allow for his adjusted salary.

(*b*) If his 'increased remuneration' is spread backwards over different tax years, he may have to pay more income tax due to the phasing of allowances and reduced rates.

(*c*) This fictitious 'increased remuneration' may also mean that the total graduated pension contributions, which he and his principal have to pay, could be increased due to the staggering of the contribution scales.

(*d*) To preserve his entitlement to Social Security benefits, an articled clerk aged 18 or over will want to pay the non-employed person's contribution (Class III) during his leave. For males, the Class III contribution exceeds the employee's share of the Class I contribution by 11*d* per week for those not contracted out and 1*s* 6*d* per week for those who are contracted out.

(*e*) In the case of the very few articled clerks who are contracted out of the State Graduated Pension scheme, the effects of this arrangement on their pension contributions (if any) and benefits should be taken into account.

The Union has written to the Ministry of Social Security to inquire if the arrangement is an 'abnormal pay practice', in which case there is a possibility that the principal, who would be required to pay the amounts he is seeking to avoid, could recover employee's contributions from his articled clerk. There is a precedent in which the Minister decided that an arrangement of this sort was not abnormal and so the Union hopes that there will be no risk of articled clerks suffering in this way. When the Minister's reply has been received and the Union has had an opportunity to examine the Council's proposals more fully, a further statement will be issued.

For the time being the Union recommends that no articled clerk should agree to his articles being endorsed, unless his principal agrees to:

(1) adjust his salary so that his gross remuneration will be no less than it would otherwise have been, and either

(2) indemnify him against all direct and indirect costs and losses which he may suffer as a result of his agreeing to the endorsement, or

(3) pay him a 'premium' to adequately cover the extra costs, etc., which he may incur, e.g. the ones envisaged in paragraphs (*b*) to (*e*) above.

These agreements should be evidenced in writing, e.g. by a signed letter from the principal to the articled clerk. Any articled clerk who has already signed this endorsement and has not obtained these agreements should do so. If any articled clerk wishes to have further advice on this subject or wishes to be assisted in any way he should get in touch with the secretary of his students' society, or the Secretary of the Union.

So far the Union has been unable to discover why a principal should pay Industrial Injuries contributions in respect of an articled clerk who receives no pay during study leave, which is what the Council said in their statement.

The Union regrets that the Council's statement should have been inadequate in so many respects. Had the Union been consulted on this matter in advance, it might have been possible to avoid the problems and complications with which all principals and articled clerks are faced.

Yours faithfully,
J. MICHAEL MIDDLEMAS, *Chairman*,
JOHN V. C. BUTCHER, *Treasurer*,
UNION OF CHARTERED ACCOUNTANT STUDENTS' SOCIETIES.
London EC2.

Integration of the Profession

SIR, – I am saddened by the note of personal animosity and bitterness which has crept into discussion, both verbal and written, of the subject of integration. Whatever one's views may be, the decisions to be taken are of great importance. They may well have far-reaching effects outside accountancy itself and they will probably regulate future development for a generation. The discussion in progress does not seem to be living up to the best standards of the professional men concerned, whatever their qualification, either as to intellectual content or as to personal behaviour. The eyes of many are upon us all. If we indulge in pettiness and in cheap rhetoric, it will be a real tragedy.

So much of the discussion seems to be ignoring fundamental realities. We are presently training three-quarters of the Institute's members for jobs they will not have to do. There is an appalling lack of understanding of the requirements of management information. Very few chartered accountants understand how to analyse the information requirements of a situation and how then to fulfil them with figures which are free from distortion. So much rubbish – rubbish because of built-in inconsistencies or irrelevancies – is currently passing for information, that serious side-effects are being produced outside the accounting world.

Those who seek to defend their world of professional practice at the cost of denying the above, are living in a strange atmosphere of unreality. Even if their offices are wide awake, computer-conscious and are generally alive to developments elsewhere, they cannot hope to survive by shutting themselves in ivory towers. We must have cross fertilization of ideas between industry and practice. The pace is now so hot, the division of activity into watertight compartments must cease if we are to continue to understand each other.

This is one reason why Mr Greener's letter, in your August 10th issue, advocating specialized institutes, is more plausible than practical. Secondly, he wants everyone to decide where they are going at the outset. This is not sensible. For a while to come many entrants will be callow 18-year olds, whose ideas must be given a chance to develop. To cast their roles at the outset would significantly raise the 'drop out' rate. In my view:

(*a*) Everyone should take the same examination at a basic level in all subjects. This should be followed by a second one, split into sections covering the full range of professional auditing, municipal accounting, industrial accounting, etc. A minimum number of sections would be required for a pass which would confer an intermediate qualification.

(*b*) A third, highly-specialized, examination should follow – to be taken not earlier than (say) three years after the second. The candidate would be expected to have chosen his career and to answer questions at a higher level than present in a more specialized field. There is no sense in the present system of passing out men at 23 or so as fully qualified. It only encourages them to think that they know the lot and it makes it difficult to demand the higher standard of technical knowledge now required. No one should be able to call himself a chartered accountant before he is 26. He won't be competent in the fullest sense, so why perpetrate this deception through which everyone, except the man himself, can see?

I am afraid that many of us are, in fact, suffering from just this self-deception. We are blind to faults which the outside world sees only too clearly. All is not well. We are teetering on the brink of the abyss of professional disaster hinted at by recurring Stock Exchange scandals involving companies going bankrupt overnight etc. The canyon of technological inadequacy is opening at our feet with increasing momentum. We have to close ranks. We, all of us, of whatever bent, need each other desperately badly. We need the strength of resources which together we can produce.

But above all we need the inspiration to rise to our destiny. Responsibility hangs heavy upon us. This is not a mere matter of demarcation, of who does what, of jobs-for-the-boys. The prosperity of our own generation and the future of another depend in part upon the decision we take. As a section of the *élite* of society, we have the trust of millions. The onus of leadership is great.

I suggest that it would not be out of place if we held non-denominational services of prayer throughout the country to seek the strength of purpose and the guidance to make the right decisions.

Yours faithfully,

Khartoum, Sudan. A. St. J. PRICE, A.C.A.

FOR STUDENTS

Examination Questions Re-examined

Materials Flow Chart

IN this article consideration is given to the preparation of a flow chart in answer to a question from the Advanced Accounting III paper set for last November's Final examination of the English Institute. Only that part of the original question which has a bearing on the preparation of the flow chart is reproduced below. There follows an analysis of the main aspects of the question, with particular emphasis on the form of the flow chart and the basis of the control system which it illustrates. The chart and accompanying notes, which together comprise the answer, are given at the end of the article.

Question

Arco Ltd produces over one thousand different products, each one of which is made to the customer's individual specification and order at a price agreed in advance on the basis of a cost estimate. The company's results for the year ended March 31st, 1967, have been summarized for you as follows:

Costs directly incurred by productive cost centres:		
materials consumed	£443,629	
direct labour (output at 'piece' rates)	107,026	
indirect labour, including salaried supervision expenses	95,420	
expenses	31,489	
labour, materials and expenses recharged in respect of repairs by maintenance staff and electricians	30,103	
		707,667
Production overheads		134,582
Selling, distribution and general administration overheads ..		153,720
		£995,969
Net sales		£1,006,160

There are three productive cost centres (rubber preparation, metal preparation and bonding) and one service cost centre (maintenance staff and electricians). Materials consumed comprise rubber and certain chemicals, which are used in rubber preparation to produce rubber blanks, and metal parts and certain other materials which are used in metal preparation to produce finished metal parts; all raw materials are delivered by suppliers to Goods Inwards and, subsequently, are passed into a stores from which they are issued to production. Rubber blanks and finished metal parts are stored prior to bonding where one of each is used together in the bonding operation to produce a finished product.

The company has traditionally been unable to prepare interim accounts of any kind because, with so many products, it has hitherto been unable to resolve the problem of reliably ascertaining interim valuations of stock and work in progress. The accounting and control arrangements for materials bought and consumed are extremely weak.

You are required to:

> *prepare a flow chart of materials bought and consumed to show the system of accounts and the type of accounting and costing entries which you would recommend the company to adopt to establish effective control of materials and to provide information essential for management, amplifying the chart with any additional notes which you consider necessary to explain the nature and purpose of the system.*

Form of flow chart

A fully satisfactory flow chart can be prepared using no other symbols than lines, arrows and simple boxes. In some applications about a dozen different symbols may be employed but this is quite unnecessary for the purpose of describing accounting systems. It will be noted that in the chart given at the end of this article, the boxes signify accounts, the lines postings, and the arrows the direction of flow. The direction of flow indicates the logical progression of entries through the accounts. The arrows do not *necessarily* indicate that the account from which the line flows is credited and that to which the line flows is debited.

The names of the accounts are shown in block letters so as further to distinguish them from the descriptions of entries. The amount of narrative shown in the chart is about the maximum generally advisable. The greater the use of narrative, the more the chart becomes an unsatisfactory compromise between a picture and an essay. An apt title must, however, be provided.

Any temptation to try and impress by introducing unnecessary complexity or spurious 'sophistication' into the chart should be resisted. The primary object of employing the chart form is to convey information in such a way that it can be easily assimilated – more easily than if a narrative description were to be given.

The abbreviations 'Dr' and 'Cr' have not been specified against the accounts; nor where either is a possibility (in the posting of the variances) have the circumstances in which each would be appropriate been stated. There are some cases where this quite definitely would be necessary, e.g. if the chart was to be used for training an accounts clerk. In this question, however, the candidate is placed in the role of an adviser to top management and should not waste time laboriously spelling out the details of the double-entries.

Information required by management

The system of accounts is required 'to establish effective control of materials and to provide information essential for management'. This means, first, that standards should be employed if possible. The use of standards has long been recognized as an effective means of achieving cost control and the feasibility of using them in this case is argued in Note (i) amplifying the flow chart.

Secondly, for stock control purposes regular and reliable figures relating to inventories of all kinds, raw materials, work in progress and finished stocks will be required.

Materials cost standards and variances

The setting of standards for materials costs involves defining both the quantities of material that should be used in the manufacture of products and the prices that should be paid for those materials. If actual material costs differ from the standard costs, this will be because the actual quantities of materials used and/or the prices actually paid for those materials have differed from the standards which were set up.

Differences between standard and actual costs are referred to as 'variances'. A difference between the standard cost of purchases and the actual cost of purchases is referred to as a 'price variance'. This variance is the actual quantity purchased multiplied by (the standard price less the actual price).

A difference between the standard usage of materials for the accounting period and the actual usage results in a quantity or usage variance. This variance is the standard materials price multiplied by (the standard usage less the actual usage). The standard usage for the period depends on the volume of production in the period since, for instance, 200 units of production will usually necessitate the usage of twice the materials required for 100 units.

In some cases the proportions in which different input materials are used may vary from the standard proportions established. As the standard prices for these materials are also likely to differ, such a change in proportions will give rise to a form of usage variance which is referred to as a materials mix variance.

In operations where wastage is normal a standard yield of good output from a given volume of input will be established. A difference between the standard yield of good output (based on the actual input) and the actual yield will give rise to a 'yield variance'. It will be noted that an account for each of the variances mentioned above is shown in the flow chart.[1]

Information regarding variances should be conveyed to the management as soon as possible. In so far as the standards really represent what costs 'should be', variances from standards represent events that should not have occurred. This information is highly relevant to a management which has to exercise control over business operations, and the quicker management receives the information the quicker can control action be taken.

It is because prompt reporting is so important that material price variances should be calculated and segregated in the accounts at the time when the materials are purchased (as indicated on the flow chart) rather than when they are issued from store for use in production. A disadvantage to be noted, however, is that if materials are taken into store at standard cost this may be inconvenient from the point of view of arriving at balance sheet stock valuations (i.e. because it is actual costs which are relevant then).

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[1] It is not possible here to deal fully with the calculation of all the standard costing variances, for which it is recommended that recourse should be had to one of the standard works on costing, such as Bigg's *Cost Accounts* (8th edition, Chapters 7 to 10).

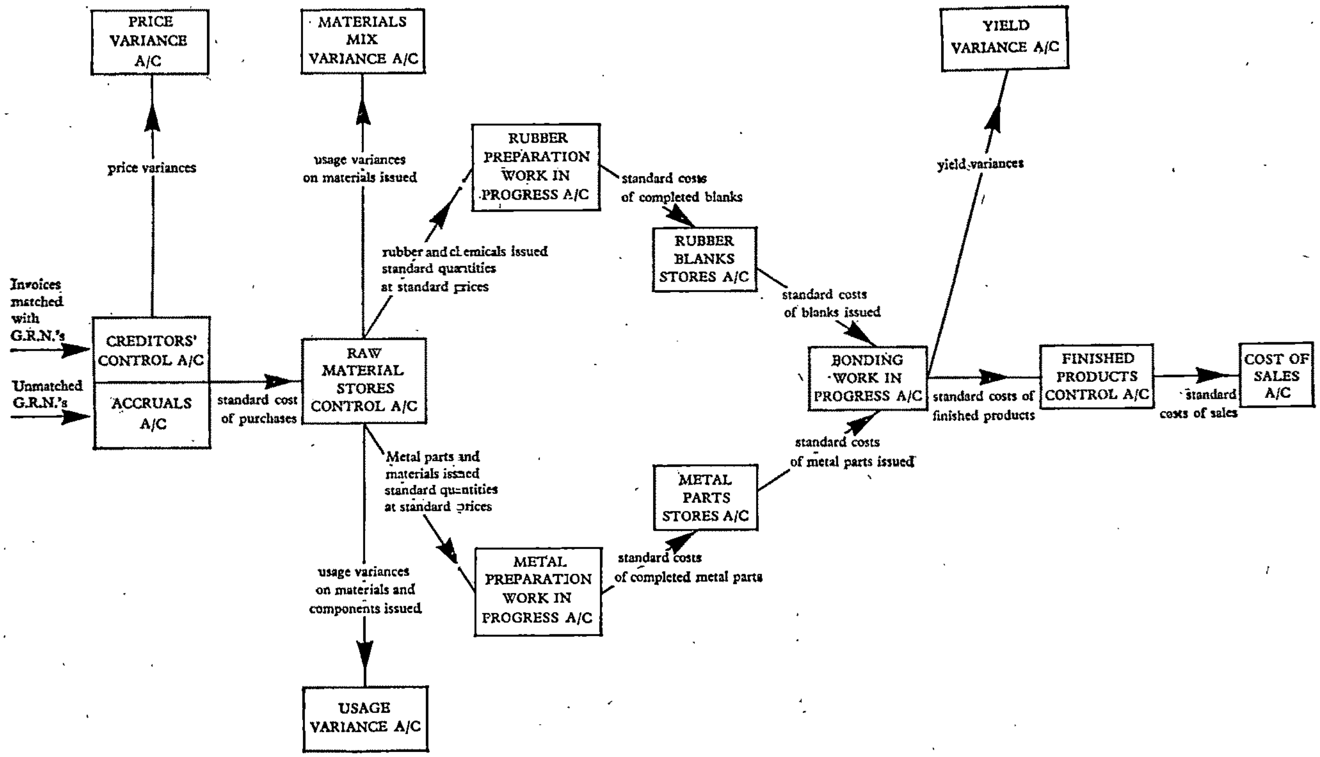
Adverse quantity variances can also be brought promptly to the attention of management by allowing the issue of materials over and above the standard quantities only on the authority of an excess usage requisition. Usage variances will then be calculated and segregated in the accounts as the requisitions are promptly dealt with in the accounting department.

Interim accounts

Thus the interim accounts which 'the company has traditionally been unable to prepare' should be management accounts drawn up on the standard costing principles outlined, with the standard costs of production and the variances from standard costs distinguished.

For inventory control purposes a raw material stores control account, together with individual stores accounts for each type of material, must be provided. It is important to appreciate the importance of dealing with purchase accruals. If only invoiced materials were brought into account, the balance of the raw materials control account could significantly understate the capital tied up in these stocks, and financial planning would be further hindered by the under-statement of liabilities. The provision of three work-in-progress accounts – one for each of the productive costs centres – will make it possible for an analysis of work in progress to be obtained easily.

Answer


PRICE VARIANCE A/C
MATERIALS MIX VARIANCE A/C
YIELD VARIANCE A/C
price variances
usage variances on materials issued
RUBBER PREPARATION WORK IN PROGRESS A/C
standard costs of completed blanks
yield variances
rubber and chemicals issued standard quantities at standard prices
RUBBER BLANKS STORES A/C
standard costs of blanks issued
Invoices matched with G.R.N.'s
CREDITORS' CONTROL A/C
Unmatched G.R.N.'s
ACCRUALS A/C
standard cost of purchases
RAW MATERIAL STORES CONTROL A/C
BONDING WORK IN PROGRESS A/C
standard costs of finished products
FINISHED PRODUCTS CONTROL A/C
standard costs of sales
COST OF SALES A/C
standard costs of metal parts issued
Metal parts and materials issued standard quantities at standard prices
METAL PARTS STORES A/C
standard costs of completed metal parts
usage variances on materials and components issued
METAL PREPARATION WORK IN PROGRESS A/C
USAGE VARIANCE A/C

Notes amplifying flow chart:

(i) Although there are over one thousand products, the economical establishment of standards seems feasible. The range of materials is narrow and material requirements have to be carefully considered when estimates are drawn up; production operations are few in number and similar for all products; labour unit costs are known in advance and the time studies presumably carried out to establish piece rates provide a basis for the establishment of standard capacities and overhead rates; much standard data have probably already been established for estimating purposes.

(ii) Materials consumed account for about 45 per cent of all costs, so it is especially important that price and quantity variances are segregated at the earliest possible times. The standard quantity of materials transferred from the stores to work in progress plus the usage variance must equal the actual quantity issued. Rubber and chemicals are combined in the rubber preparation process, so it is conceivable that a materials mixture variance could arise at this point.

(iii) Materials received are recorded on goods received notes (G.R.N.) in the goods inwards department, and these documents, when matched with an invoice, form the basis of the postings to raw material stores control account and subsidiary stores accounts for each type of material. Any unmatched goods received notes are used to compute the total of accruals at the end of each accounting period.

(iv) Indirect materials issued to cost centres would be debited to the respective cost centre overhead accounts.

(v) Perpetual inventory records would be required in each stores and a system of continuous stock-checking would be instituted. Stores discrepancies would be notified to the accounts department, and stock accounts adjusted accordingly.

(vi) Use would be made of copies of production orders to notify the accounts department of the completion of rubber blanks, metal parts and finished products.

(vii) All stocks are valued at standard cost.

Notes and Notices

PROFESSIONAL NOTICES

Messrs Goodland Bull & Co, Chartered Accountants, of Bridgwater House, Corporation Street, Taunton, announce with regret that Mr John Martin West, F.C.A., a partner at their Tiverton office, died suddenly on August 19th, 1968.

Messrs Mann Judd Gordon & Co, Chartered Accountants, of 142 St Vincent Street, Glasgow C2, announce that their senior partner, Mr James M. Cowie, B.L., C.A., who has been a member of the firm since 1937, retired from the practice on June 30th, 1968.

Messrs Ogden, Parsons & Co, Chartered Accountants, announce that Mr J. W. Burnell, F.C.A., will be admitted into partnership with effect from September 1st, 1968. Mr Burnell will be leaving Messrs Wilkinson & Mellor, the firm in which he has been a partner since 1952.

APPOINTMENTS

Mr T. R. Astley, F.C.A., deputy managing director of Eva Industries Ltd, has been appointed deputy chairman of the company.

Mr W. R. Burns, LL.B., C.A., has been appointed chairman of Timberland Ltd.

Mr R. P. St George Cazalet, F.C.A., has been appointed a director of Mendip Investment Co Ltd.

Mr M. R. Kirwan, A.C.A., has been appointed accountant to the G. A. Harvey Group.

Mr John P. McNee, C.A., has been appointed commercial director of Weir Westgarth Ltd.

Mr L. A. Milner, F.C.A., has been appointed a director of McKechnie Chemicals Ltd.

Mr J. T. Rowlay, F.C.A., has been appointed to the board of Hardy Amies (Perfumers) Ltd.

Mr David J. Young, C.B.E., C.A., F.C.W.A., J.DIP.M.A., has joined the board of the Prince of Wales Dry Dock Co, Swansea, Ltd.

Mr John Hargreaves, F.C.A., financial controller and secretary of Smith & Nephew Associated Companies Ltd, has joined the board of Jeyes Group Ltd.

Mr John Hargreaves.

Mr D. A. King.

Mr D. A. King, F.C.A., secretary of W. & R. R. Adam Ltd, has been appointed a director of the company.

OFFICIAL RECEIVER, CARDIFF

Change of Address

The office of the Official Receiver in Bankruptcy, Cardiff, is to be transferred from County Court Buildings, Westgate Street, Cardiff, CF1 1NJ, to 9th Floor, 24–26 Newport Road, Cardiff, CF2 1SH. The telephone number, 022 2 30575, will remain unchanged.

CERTIFIED ACCOUNTANT AWARDED FULBRIGHT SCHOLARSHIP

Mr James Fisher, F.A.C.C.A., lecturer in accounting and finance at Heriot-Watt University, Edinburgh, has been awarded a Fulbright Scholarship tenable at the University of Minnesota, Minneapolis.

Mr Fisher will hold a teaching associateship in accountancy and finance at the University's School of Administration. The scholarship covers the academic year 1968–69 and he is being granted leave of absence from Heriot-Watt University in order to carry out the tour.

PROPOSED INTEGRATION SCHEME

Next Week's Meetings

Council members of The Institute of Municipal Treasurers and Accountants will be present at the following local meetings to be held next week, when the proposals for the integration scheme will be discussed:

Thursday:

Midland Associates, Birmingham, 2 p.m.

Friday:

North Western Branch, Preston, 10.45 a.m.

MODERN AUDITING DISCUSSION GROUP

The recently formed Modern Auditing Discussion Group of the London and District Society of Chartered Accountants will be commencing its activities for the new season with a meeting on Tuesday, September 10th, at 6 p.m., at the 'Ship' in Wormwood Street, London EC2. The subject for the meeting will be 'Debtor and creditor confirmation' and the speaker will be Mr J. D. Cucksey, A.C.A.

Further particulars regarding the activities of the Group may be obtained from the secretary, Mr A. Strudwick, F.C.A., c/o Arthur C. Heyward & Co, 4 Broad Street Place, London EC2.

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REVALUATION OF ASSETS
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MANAGEMENT DISCUSSION GROUP

The first meeting of the Management Discussion Group of the London and District Society of Chartered Accountants will be held at 6.30 p.m. on Monday, September 9th, at the National Liberal Club, Whitehall Place, London SW1 (room reserved in the name of Mr Stanley Dent). The speaker will be Mr S. P. O'Connor, B.A., organization and methods lecturer at the Cranfield School of Work Study, who will start the discussion on 'Information simplification'.

The membership subscription is 10*s* per annum covering eight meetings and is collected on the first attendance.

INCREASE IN ECGD BUSINESS

IN the second quarter of 1968 the Export Credits Guarantee Department insured 'commercial' business amounting to £474·8 million – a 7 per cent increase over the same period last year. The current maximum liability at the end of the quarter was £1,591·2 million, compared with £1,488·2 million a year ago.

New 'commercial' business on medium-term credit insured during the quarter included contracts for cement plant (£2·5 million), glass fibre plant (£2·2 million), electrical distribution (£1·4 million), diesel engines (£1·2 million), and pumps (£1·1 million).

The number of comprehensive policies current (under section 1 of the Export Guarantees Act) at the end of the second quarter of 1968 was 10,423. This compared with 10,197 at the beginning of the quarter and 9,650 at the end of the corresponding period last year.

The face value of comprehensive policies current at the end of the quarter was £2,142·1 million, compared with £2,116·6 million at the beginning of the quarter, and £1,974·5 million a year ago. New specific policies (covering individual contracts) to a face value of £9·8 million were issued during the quarter, and the combined value of all comprehensive and specific insured business (excluding services) declared as shipped during the quarter amounted to £474·8 million, compared with £493·8 million in the previous quarter and £442·3 million in the corresponding period last year.

WHO OWNS WHOM

The 1968 volume of *Who Owns Whom* (UK edition) recently published, contains some 77,000 entries – an increase of 7,000 entries compared with the previous edition.

The directory consists of four sections, as follows: UK parent and associate companies showing subsidiary and associate companies; UK subsidiary and associate companies showing parent and associate companies; US parent and associate companies showing UK subsidiary and associate companies, and unit trusts showing managers and trustees.

Who Owns Whom, now priced at £10, extends to over 1,700 pages and is a very useful guide for directors and accountants wishing to know with whom they are dealing. It is also invaluable for following through the ramifications of a group.

The publishers, O. W. Roskill & Co (Reports) Ltd, already publish a companion volume, *Who Owns Whom* (Continental edition), and they have now decided to issue a third directory listing all foreign subsidiaries of US companies in order to cover the continuous growth in the importance of US companies operating outside the USA. It is hoped that the first edition (price £7) will be available in the autumn and advance orders should be addressed to the publishers' offices at 14 Great College Street, London SW1.

INSTITUTE OF ARBITRATORS

Lecture Meetings

The Institute of Arbitrators, in conjunction with the London Court of Arbitration, is arranging a series of lectures on arbitration during the autumn for members of the principal professional bodies and for those in senior positions in commercial firms.

The meetings will be held at 6.15 p.m. at the Royal Institute of British Architects, 66 Portland Place, London W1, as follows:

October 7th: 'Preliminaries in arbitration', by Mr Norman Royce, F.R.I.B.A., F.I.ARB.

October 14th: 'Procedure in arbitration', by Mr A. B. Waters, M.B.E., G.M., F.R.I.B.A., F.I.ARB.

October 21st: 'Preface to international arbitration' – a review of world-wide commercial dispute settlement, by Mr H. F. Hoare, Registrar, London Court of Arbitration.

October 28th: 'Progress in arbitration', by Mr C. Barclay, M.SC., M.R.I.N.A., M.I.MAR.E., F.I.C.S., F.I.ARB., and Mr R. J. Soper, M.ENG., C.ENG., M.I.C.E., M.I.STRUCT.E., M.I.MUN.E., M.T.P.I., M.I.H.E., F.I.ARB., Barrister-at-Law.

November 18th: 'Practice in arbitration' – a demonstration dispute under a consequential loss insurance policy.

The lecture on international commercial arbitration to be given on October 21st by the Registrar of the London Court of Arbitration is likely to be of particular interest to all those engaged in export business.

Further information is available from Mr David Reid, F.C.A., Secretary, The Institute of Arbitrators, 16 Park Crescent, London W1.

DATAFAIR 69

A 'call for papers' has been issued by Datafair 69, the conference on computer usage and applications to be held next year in Manchester from August 25th to 29th.

Abstracts of up to five hundred words are required to be submitted for consideration before November 15th, 1968. Papers to be presented will be selected by the Datafair 69 Papers Committee under the chairmanship of Professor S. Gill.

Papers are particularly sought from authors with first-hand practical experience in the following areas of computer application and technology: computer graphics; advances in programming; computers and telecommunications; data entry; sociological effects of computers; data bases; and novel applications.

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THE RAPID RESULTS COLLEGE

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Member of the Association of British Correspondence Colleges

Organized by The British Computer Society, Datafair will comprise a symposium on data processing in business and industry, together with special presentations by international computer organizations.

Symposium papers will be delivered during the afternoons, the mornings being reserved for industry presentations. Provision has been made for approximately seventy papers to be delivered and discussed during the five days of the symposium.

Further details and copies of the rules for submitting papers are available from The British Computer Society, 23 Dorset Square, London NW1.

ECONOMIC CONDITIONS OVERSEAS

Three booklets in the series of annual economic surveys of developments and prospects in member countries of the Organization for Economic Co-operation and Development have recently been published, covering Norway, Japan and Turkey. Copies of the booklets are obtainable from H.M. Stationery Office, price 5*s* 6*d* each.

CHARTERED ACCOUNTANTS' HOCKEY CLUB

Annual General Meeting

The annual general meeting of the Chartered Accountants' Hockey Club will be held at Crystal Palace Sports Centre at 7.30 p.m. on Thursday, September 26th, following a match with the articled clerks.

Members not invited to play in the match will also be very welcome to attend.

Institute members or articled clerks who are interested in joining the Club should contact the Honorary Secretary, Chartered Accountants' Hockey Club, Church Cottage, Stratford St Mary, near Colchester, Essex.

THE ACCOUNTANT BY AIR

The advantages of keeping completely up to date are obvious. Overseas readers of *The Accountant* may receive their copies of each week's issue within a few days of publication by subscribing for the airmail edition printed on special thin paper of high quality. The subscription for the airmail edition is £9 15*s* a year, including additional postage, irrespective of the country to which copies are sent, and £4 17*s* 6*d* per half-year.

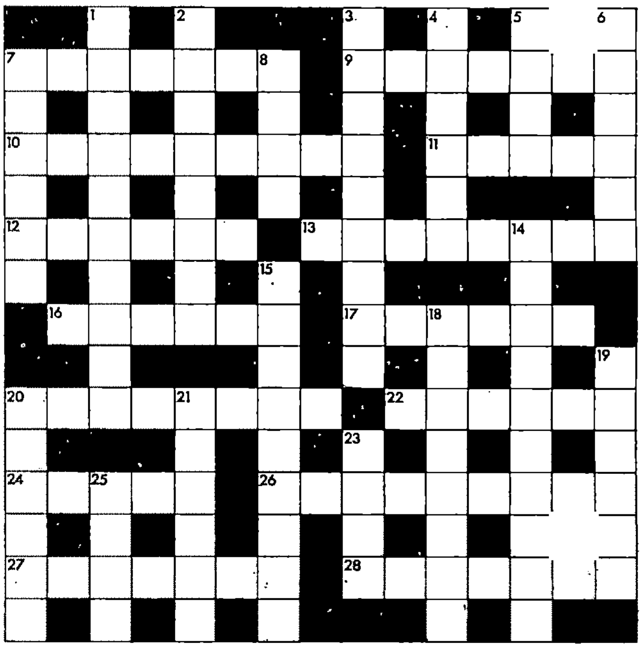
Readers abroad who are interested in receiving the airmail edition, or anyone who may wish to send *The Accountant* to relatives or friends overseas, should write to the Subscription Department, 151 Strand, London WC2.

Holiday Crossword

'17 MARKS'

Compiled by Kenneth Trickett, F.C.A.

The answers to 12 across, 1, 3 and 15 down have something in common, and their 'associates' are related to them respectively in the same way.



CLUES ACROSS

7. Patronizing stencil-makers (7).
9. Money required for first-class diner (7).
10. Aggregate amount is 1,000 when recast (9).
11. House to let opposite, where accommodation may be booked (5).
13. Paper protector (8).
16. Ecclesiastical footwear manufacturer (6).
17. Description of the number twelve for this year (6).
20. Considered by itself includes a condition to reduce to lower terms (8).
22. Book a quantity (6).
24. Stood to invest almost entirely in reversion (5).
26. A client is disposed to describe the demand for necessaries (9).
27. Set up place in an office (7).
28. They avoid advertising leaflets (7).

CLUES DOWN

2. For using by way of a concession (2, 6).
4. Theme-word associated with 1 down (6).
5. Legal document written in archaic language (4).
6. Silver alloyed with base metal=999,999,999,999 (6).
7. Theme-word associated with 3 down (6).
8. Agree a process (4).
14. Unjust dealings in ordinary shares (10).
18. and 23. Theme-words associated with 12 across (8, 4).
19. Protects receiving-houses (6).
20. Consent to refer for arbitration (6).
21. Arrears of work that may be made up, having an eye to the law, perhaps (6).
23. See 18.
25. Theme-word associated with 15 down (4).

The solution will be published in next week's issue.

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Decimal Problems

IT would be idle to pretend that the changeover to decimal currency will be either easy or cheap. It is by now fairly well known that the Government does not propose to pay compensation in respect of costs arising from decimalization. The nearest approach to such compensation – if it may so be termed – will be provided by the normal operation of the tax system, since the costs of conversion will be chargeable to tax.

The normal distinctions between expenditure of a revenue and capital nature apply. Thus the cost of converting machines to decimal working, like the expenditure on new stationery and staff training costs, will be deductible in full as a business expense for the year in which they are incurred. Where, however, the conversion includes some element of improvement, or the machine is altered to perform a different function, then some or all of the expenditure may be regarded as capital expenditure. This and any new machinery will be eligible for capital allowances, while a balancing allowance will be made for machinery disposed of.

Despite the Government's publicized intention not to pay compensation, except in exceptional cases, a number of organizations and individuals have made applications for assistance. According to the current *News-Letter* of the Decimal Currency Board, the only justification for compensation will be 'special circumstances', of which it appears the Board has received very few convincingly argued cases, and none which have justified a recommendation to the Government for compensation to be paid.

The criteria for 'special circumstances' are that the expenses must have been directly incurred as the result of decimalization and would not otherwise have been incurred. They must be clearly identifiable and measurable, as well as being manifestly disproportionate after taking into account all tax allowances. Compensation will apply only to the conversion or replacement of machines purchased before July 14th, 1967, and the costs incurred must extend so far beyond the normal financial fluctuations and hazards of business that they cannot be readily absorbed in normal operating costs.

Given these criteria, it is hardly surprising that there have been no successful applications. On the other hand, it is quite clear that the costs of the changeover, even when allowance has been made for tax, are going to be considerable. Quite apart from difficulties of converting current consumer prices in to the new currency, there will almost certainly be further inflationary effects as the result of bringing in these substantial conversion costs.

Group Company Arrangements

DESPITE the termination of the profits tax scheme for the optional pooling of profits and losses of the members of a group of companies under 75 per cent common control, the 'special relationship' between such companies, which was first recognized for income tax by the subvention payment rules introduced in 1953, was accorded fresh status by the Finance Act 1967, which set up a system of group relief for the utilization of losses.

Section 20 of the 1953 Act required a subvention payment to be made in or before the year of assessment following that in which the accounting period for which it was made came to an end – a time limit extended by a year in the general revision of time limits which took place in 1958. Schedule 10 of the 1967 Act adopted a somewhat shorter period in which a claim has to be made, namely, two years from the end of the surrendering company's accounting period to which the claim relates.

The passing into law of the Finance Act 1967 (July 21st, 1967), signalled the watershed between the old and new systems for accounting periods ending with or after that date, so that as yet there is no urgency as regards the submission of claims. It could happen, however, that the loss of the surrendering company will not be agreed at the expiry of the time limit, so that the recent action of the Board of Inland Revenue in intimating that they will accept provisional claims (see 'New Revenue Concessions', *The Accountant*, August 24th), is very welcome.

In the context of capital gains tax, companies enjoying the 'special relationship' have access to a wider use of the 'roll-over' provisions of section 33 of the Finance Act 1965 which permit deferment of the charge where proceeds of disposal are adequately reflected in the replacement. The section is made available in relation to a person who, either successively or at the same time, carries on two trades which are in different localities but which are concerned with goods or services of the same kind as if, in relation to the old assets used for the purposes of the one trade and the new assets used for the purposes of the other trade, the two trades were the same trade. The privilege granted to specially-related companies by paragraph 6 of Schedule 13 is that all the trades carried on by group members are to be treated as a single trade (except as regards inter-group disposals separately catered for). It may be thought that the privilege does no more than raise the nexus of group relationship to the status of single person ownership. However, a diversified group is likely to carry on trades involving disparate goods and services, and it has now been made clear, in the statement already referred to, that the paragraph is to be construed as implying a single omnibus trade with unrestricted 'roll-over' opportunities.

Section 41 of the Finance Act 1965 was designed to enable some capital gains tax to be collected by reference to sizeable shares of gains realized by closely held companies abroad if notionally attributable to United Kingdom shareholders. The impact of this rule was mitigated by paragraph 22 of Schedule 12 to the Finance Act 1968, which enabled a group of such companies to occupy a position equivalent to that accorded under Part I of Schedule 13 in the 1965 Act whereby inter-group transfers are deemed to take place at values which obviate chargeable gains or allowable losses arising from the transfer. The new paragraph is expressed to have effect as respects any disposal after April 10th, 1968 – a provision the restrictive character of which attracted criticism from a Member in the course of the debate on the Finance Bill in Standing Committee A (*Hansard*, May 29th, 1968); the comment being made that the point was important and deserved the sympathetic attention of the Chief Secretary to the Treasury. The latter, in reply, indicated that the matter would receive consideration and, although in the event the terms of the legislation remained unchanged, the recent statement makes it known that the Inland Revenue have confirmed that if earlier cases arise to which paragraph 22 could be material they will be dealt with sympathetically.

Another echo of that debate may be heard in the announcement that the Revenue have confirmed that paragraph 23 (2) provides that a company is not to be treated as leaving a group if it is transferred by its immediate parent company to the principal company or to another subsidiary of the principal company. The paragraph opens with the statement that a group remains the same group so long as the same company remains the principal company. The paragraph also indicates that the 'family' of a principal adopt the latter's status if it becomes a subsidiary elsewhere. It is not easy to see that the terms of the clarifying announcement follow directly from Schedule 12 in the Finance Act 1968, but the phrases used appear apt to resolve a doubt to which utterance was given in the debate.

Association between companies can bring penalties as well as privileges in its train. The 1955 rules on dividend-stripping have now yielded place to those set out in section 65 and Schedule 17 of the Finance Act 1965 and the recent statement clarifies a few technical points. The incidence of the rules is not confined to substantial shareholdings only and their message requires to be heeded by those who organize movements of capital and income groupwise.

Section 27 of the Finance Act 1968 relaxes the stringency of a rule of three applied to a shareholding acquired from an associated company. Again the use of time as the basis of apportionment in relating distributions to profits may be dispensed with if the result is clearly inequitable. Furthermore the payment of a dividend part of which is passed up gross under election is allowed to be reckoned so as to maximize the attribution of post-acquisition profits to the taxed element which it is sought to invest with the status of franked investment income.

Current Affairs

Foreign Investment

IN the not too distant future American companies will be producing more goods abroad than at home. This is probably one of the more startling findings of a comparative study of UK and US investment abroad prepared by Professor J. H. Dunning at the University of Reading, appearing in the current issue of the *National Provincial Bank Review*.

At present about four-fifths of all international direct investment is undertaken by US and UK companies. The proportion was higher a decade ago but more recently Germany, France and Italy have all developed their overseas interests very rapidly. International investment is, in fact, growing at about twice the annual rate of increase in the world gross national product. The relative importance of such activity is reflected in the fact that UK companies currently derive one-third of their income from overseas operations, while foreign companies in the UK contribute about one-fifth of UK exports and account for one-tenth of the output of manufactured goods.

On the evidence of the available statistical information, it is not clear exactly how widely disparate are the results of UK and US investment but in recent years US long-term capital exports have grown very much faster than those of the UK. The result is that a higher proportion of UK overseas investment is in older industries, where the rate of return is not as high as that from investment in the newer industries in which the Americans have specialized. United States firms are currently acquiring about 400 foreign firms each year, and local financing is becoming an increasingly important component in capital expenditure of US-controlled companies. In the case of UK investment, since 1950 a larger proportion has been from firms with assets of less than £1 million than was the case before this date.

Professor Dunning observes that US firms probably record a marginally better export performance than do the UK companies. According to his findings the former are also generally more profitable than UK firms and derive higher royalties and fees as a percentage of capital invested. While some part of the explanation is to be found in structural differences between US and UK investing companies, the author believes that it is mainly due to the managerial and technological advantages that American companies have over their UK competitors.

Stock Levels

EVERY accountant is aware of the importance of accurate stock valuation but probably relatively few are aware of the importance of stocks either in relation to the size of the national product or the effects of fluctuations in those stocks on the national economy. The recent DEA *Progress Report* for August estimates that stocks of trading enterprises comprising materials and fuel, work in progress or finished goods, had a book value at the end of 1967 of some £13,800 million, i.e. more than one-third of the national product. Over half of this total was held by manufacturing industry and about 10 per cent each by retail and wholesale trade and agriculture. Of the stocks held by manufacturing industry, 34 per cent were classified by the firms as 'materials and fuel', 39 per cent as 'work in progress', and the remaining 27 per cent as 'finished goods'. It is hardly surprising to learn that over half of manufacturers' stocks were held by the engineering, shipbuilding and vehicle industries.

Stocks are important, observes the article, in so far as they serve as a buffer between producers and consumers, and thereby enable production to be adjusted more smoothly to fluctuations in demand. Quarterly inquiries into stock changes are conducted by the Board of Trade, since short-term fluctuations in the rate of stock building can exercise important effects on the level of demand. Over the period 1956–67 as a whole, stock-building accounted on average for no more than 1 per cent of total final demand, but between 1959 and 1960 and again between 1963 and 1964 the accelerated increase in the rate of stock-building was an important factor in intensifying pressure on the economy.

The *Progress Report* stresses the impact of changes in stock-building on the volume of imports and their short-term effects on the balance of payments. Their significance stems from the fact that the import content of investment in stocks is higher than the import content of other forms of final expenditure.

Every professional accountant is familiar with the economies to be derived from effective stock control. The importance of stock control at the national level is stressed by the *Report* which observes, 'economies in stock-holding would release substantial resources for other purchases. Such economies might be achieved through improvements in management, in production of stock control, and in delivery performance'. Readers may be interested to learn that the 'Little Neddy' for the distributive trades has already produced a booklet on stock control called *Gold in your Hands*.

Theft Act 1968

THE new Theft Act, which received the Royal Assent on July 26th, and becomes effective on January 1st next year, introduces new definitions of, *inter alia*, the offences of theft, robbery, burglary, aggravated burglary and blackmail. It also repeals the Larceny Acts of 1861 and 1916 and the ancillary Falsification of Accounts Act 1875.

By section 16 the Act provides that it shall be an indictable offence for a person to obtain by deception, for himself or another, certain categories of 'pecuniary advantage'. These include the evasion or reduction of any debt or charge for which he is liable (including one not legally enforceable), borrowing on overdraft, or the taking out of any policy of insurance, or the opportunity to earn remuneration in employment, on more favourable terms than would otherwise be the case. 'Deception' for this purpose may be deliberate or reckless, by words or conduct and as to fact or law. (Prospective employees who exaggerate or misrepresent their qualifications may now render themselves liable to a maximum of five years' imprisonment.)

Section 17 deals with false accounting, where a person 'dishonestly . . . destroys, defaces, conceals or falsifies any account or any record or document made or required for any accounting purpose'. It seems plain that the definition is wide enough to embrace the most sophisticated forms of data processing as well as conventional books of account, although as long ago as 1909 it was held in *R. v. Solomons* ([1909] 2 K.B. 980) that falsification of a mechanical means of recording an account was an offence under the 1875 Act.

By section 18, offences committed under sections 16 or 17 by bodies corporate are also punishable against any director, manager, secretary or other similar officer who consented or connived thereat. Section 19 substantially re-enacts section 84 of the Larceny Act 1861, relating to the publication of false statements with intent to deceive members or creditors. Its terms are, however, extended to include officers of unincorporated associations as well as of corporations, or persons purporting to act as officers.

Low Pay

ACCORDING to a new Fabian pamphlet, *Low Pay* (2*s* 6*d*), by two trades union officials, John Edmonds and Giles Radice, two and a half million male and about five million female workers earned less than £15 a week in the tax year 1965–66. These figures include, of course, juveniles, part-time workers, and those working less than the full year, so the precise numbers of low paid full-time adult workers cannot be determined, as the authors point out, with any degree of statistical accuracy.

The fact remains, however, that there is a significant minority of workers whose wages fall short even of the social security benefits available to the unemployed or needy. Readers will be familiar with the problem posed by the Ministry of Social Security's practice of the 'wage stop', whereby it becomes necessary to reduce the benefits payable where the total benefits might otherwise exceed the man's working wage.

The authors' propose two basic methods of assisting the lower-paid worker. First, not unnaturally in view of their official positions, they urge strengthening his bargaining position, through unionization. Second, they recommend changes in the social security and tax structure. The most important change proposed is the abolition of tax allowances for children and an increase in the family allowance. This policy, it will be recalled, was initiated in the 1968 Budget. They also suggest more effective reviews of the pricing policies of the nationalized industries which, in their opinion, tend to discriminate against the small consumer and they reiterate the case for a universal system of consumer subsidies and benefits as against selectivity, whatever the cost advantages of the latter may be.

Undoubtedly, the most important fact to emerge from this study is the lack of information relating to an extremely important minority of the population. There is still far too little information available about earnings as distinct from basic wage rates in certain industries. It does not help the analysis, however, to confuse the earnings of juveniles and part-time workers with people in full-time employment, as is done in this pamphlet. The real issue – and so far nobody has yet been able to provide a solution – is how one achieves a situation in which people do not get considerably more money when not working than when they are.

Little to Fault in Trade Marks Act

THE 1938 Trade Marks Act is basically sound and should not be altered for the sake of alteration, particularly as its principles are being adopted and carried through by an ever increasing number of overseas countries, according to recommendations now published by The Institute of Trade Mark Agents.

Although the Act, state the recommendations, has recently been taken as a basis for a 'model trade-mark law' in developing countries it is, nevertheless, felt that after 30 years there is room for certain amendments.

Prima facie, the Institute says that it can find no fault with the underlying principles behind the legislation, i.e. although the prime purpose of the Act is to grant statutory protection to proprietors of trademarks, this protection is only granted if: (1) It is clear and apparent that the public interest is safeguarded and not damaged by such a registration, and (2) the rights of existing registered proprietors are safeguarded.

In dealing with the regulations governing Certification Trade Marks, the Institute states that improvements could be made and it recommends that the Board of Trade should be empowered to require in respect of existing, as well as future, registrations that the mark includes wording to the effect that it is a Certification Trade Mark, and should generally impose a requirement to this effect with discretionary power for a waiver in appropriate cases. The Board of Trade should also be authorized to take account of the extent of public advantage as well as the mere existence of some public advantage in a proposed registration.

This is My Life

by An Industrious Accountant

MY son and his career-seeking confrères gathered around again for another discussion on the careers of potential qualified accountants. They seemed vaguely anxious – as if the profession's rosy prospects had somehow faded. They wanted reassurance.

A suave executive from a leading electronics concern had that morning lectured their class on the wonders of becoming electronics experts – the supermen of the century, the new world's demi-gods – and had indicated curtly that financial prestige was for the birds. Any good E.E., he had stated, could demand a starting salary of astronomical size . . . what, they asked, could a qualified accountant expect?

It was a reasonable request. The best answer would probably be 'wait and see', of course, but from a financial forecaster of experience more clarity was required. On a sheet of graph-paper I roughed out some comparable statistics in cash-flow form.

Take the base case, for the moment, I explained, of a bright young man entering a bank at about the age of 18. Commence the graph at something around £600 on the vertical scale, thus, rising year by year. About £1,000 at age 25, near £1,500 at 29, sharp increases to teller and accountant, possibly jumping up to manager at 40-plus . . . 'My uncle has a free house, too, with jolly good carpets and venetian blinds', interrupted the stout boy complacently, and an envious sigh whispered through the group.

The penurious initial line of our profession looked bleak by comparison. Four years at university in pursuit of a degree in commerce were represented by a straight red accentuation of the horizontal base scale. No income could be foreseen. The spectacled boy asked what about all the college extras? Wouldn't they make the cash-flow minus, even allowing for free education?

The next three years of articles didn't do much to impress the audience. True, there's now the makings of a basic salary, and in some firms the pay is somewhat better, but even so the red dots mounted appallingly slowly. Their murmurs were clearly audible. 'Dad'll have to carry me till I'm 25 . . . there's over £4,000 difference in seven years . . . doesn't look much of a pay-off for a senior articled clerk, does it, considering he'll be doing responsible work by that time?'

It was just as well for the comparison that qualified accountants, even the younger ones, are generally paid a reasonable wage. My red lines moved vertically upwards and then slanted forward agreeably over the years. One line stood as the norm for those in auditors' offices, another climbed higher in dotted hopefulness to represent a good career in industry – say, chief accountant, financial comptroller, or company secretary. Then came a third in astronomical wealth to stand for the type of genius with a flair for the boardroom merger. This effort ran away off the graph and the group whistled gently in admiration.

I remembered an old picture at home called 'The Boyhood of Raleigh', portraying two youngsters in doublet and hose listening enthralled to a swarthy sailor telling wondrous fantasies of treasure-laden galleons, of tempests, doubloons and derring-do . . . I came back to earth guiltily. No need to gild the lily for them. Relatively few accountants experience cut-throat take-overs or international buccaneering; good incomes in good jobs, God willing, meet our needs. Enough is as good as a feast.

But more important than pieces-of-eight, I told them in perhaps excessive verbiage, are enjoyable careers in an interesting mental climate, giving job satisfaction and the consciousness of achievement. They nodded solemnly and departed without comment. Perhaps after all, electronics are more attractive.

Protecting the Investor in the US

Role of the Securities and Exchange Commission

by A NORTH AMERICAN CORRESPONDENT

'WHERE were you on November 12th, 1963?' This has recently become a leading question among American investment advisors and analysts. It reflects the lengths to which the regulatory bodies go in their efforts to protect the investing public – and the long time lag between a suspected misdeed and its correction in the Courts. Already five years old, the new investigation of company officers trading in their own stock will be several years older if the *Texas Gulf Sulphur* case is taken all the way to the Supreme Court.

The safe answer to the question is 'As far as possible from Timmins (in Ontario), as removed as possible from the minerals business and as ignorant as possible about the meaning of core samples'. It is now well known that one of the world's richest discoveries of copper, zinc and silver was made with the help of ore samples taken from holes that were carefully camouflaged after being drilled near Timmins in November 1963 – causing the stock of the discovering company (and many related companies) to go wild on the New York market.

The catch was that the market reaction did not gather momentum until April 1964, when reports in Canadian newspapers induced Texas Gulf Sulphur to issue a Sunday Press release, followed up by confirmation of a major ore discovery. The record shows that, during the intervening five months, directors and others likely to know the importance of the Timmins find had traded extensively in the company's stock. Other investors, in their ignorance, had presumably sold their stock at prices far below the true value.

Watchdog of the public interest

This case is expected to set new ground-rules for disclosure of 'inside' information to stockholders. It provides another example of the vigilance of the Securities and Exchange Commission in acting as watchdog of the public interest. The case against Texas Gulf Sulphur and its officers was brought under the depression-born Securities law passed in 1934, after America's gross national product had been cut in half and the price of stocks had fallen by 85 per cent as a result of the 1929 crash. Over the last 34 years, the Commission has built up a more rigid set of investor defences than is available under the arrangements made by the Council of the London Stock Exchange – and one for which most American investors are duly grateful. The rival American bids for control of Gallaher Ltd have, of course, raised the question whether an SEC type of institution might not be a useful supplement to London's self-policing mechanisms.

New issue requirements

One of the most conspicuous activities of the SEC is to regulate new issues. With a few exceptions granted to ease the problems of Government and inter-Government financing, registration with the Commission is required before any new listed security can be brought to market. A prerequisite is the preparation of a prospectus giving a great deal of information on the history of the company and on its officers, including their remuneration and stockholding, and details of the main sources of the company's current income. The disclosure requirements are such that British companies often prefer to avoid them – though at some sacrifice in the marketability of their stock in the United States – by using depository receipts rather than offers for sale as a method of attracting United States funds. The mail cannot be used nor securities listed and offered to the public until these formalities have been completed.

The Commission also sets rules for brokers, who have to register with it and follow its rules against price manipulation, fake sales and other malpractices. One of the key functions is to approve the rates for brokerage services, which at present run at about 1 per cent of the amount of the transaction in stocks listed on the New York Exchange. With insurance companies and other institutional investors typically working in 1,000-share orders, a single transaction may easily bring in the equivalent of a £500 commission for the broker lucky enough to capture the business. On an operation that can be completed in a few minutes, these are rich pickings in anybody's book.

Now that the daily total of transactions on New York's 'Big Board' often climbs above ten million shares, the SEC has become understandably curious where all the brokerage money is going. The Department of Justice has also expressed doubts about the whole concept of minimum commission rates as set by the major United States stock exchanges and approved by the SEC. Under the rigours of the American regulatory system, brokers are in no position to laugh off these doubts.

One of the practices that has especially intrigued the SEC has been the 'give-up' offered by brokers carrying out orders for unit trusts (mutual funds in New York terminology). This type of business now generates commissions totalling the equivalent of nearly £100 million annually. Oddly enough, the brokerage houses blessed with this bonanza have taken to giving away anywhere up to three-quarters of their commissions. Beneficiaries have ranged from obscure research firms in remote parts of the United States to private accounts in Switzerland and stockbrokers in Britain.

In hearings ordered by the SEC and now dragging into their third month, many ingenious explanations of 'give-ups' have been offered: those sharing the commissions help to unearth new investment opportunities, to publicize the merits of the units and to make it easier to sell them abroad. An incredulous SEC has concluded that, however that may be, the brokers agreeing to the 'give-ups' are being too richly rewarded and can afford a drastic revision in the commission system.

Introduction of discounts

The simple cure proposed by the SEC is the introduction of discounts off the minimum rate to compensate for the extra attractions of large transactions. Even more radical is the Department of Justice suggestion of free competition among brokers in setting the rate on each type of transaction. The brokers have been horrified, letting it be known that there would be very little reason for belonging to an organized stock exchange if it provided no guarantee of an adequate and agreed level of commissions. Indicating that the Government is going too far in its latest effort to reform the existing practices of the largest securities market in the world, Robert Haack, president of the New York Stock Exchange, has stressed that 'this is not an area where one experiments, tries a new system and returns to the old if the results are unsatisfactory'.

This injunction to leave well alone has been firmly rejected by the SEC. It has given the New York Stock Exchange until the middle of September to come forward with acceptable proposals for self-reform. Predictably, the Exchange has suggested the introduction of discounts (an average of around 20 per cent on 1,000 shares or more) and the abolition of 'give-ups'. Surrender to SEC pressure became inevitable once it was recognized that the commissions being 'given up' belonged by rights to those who had invested their savings in the unit trusts, not to the managers who were agreeing to the 'give-ups'.

After this summer's disclosures, there is little inducement for American investors to cling to the belief that the reforms introduced at the time of the New Deal provided a system of investor defences that would be proof against all future attacks. On the contrary, it is now seen more clearly than before that the growth of investment activity is bringing entirely new policing problems.

Spreading the net

Increasing efforts are therefore being made to spread the regulatory net into the motley field of unlisted securities. Some of the finest stocks – those of banks and insurance companies, for instance – are by tradition traded 'over the counter', and as such are unlisted. There are more than 7,000 such stocks – compared with the total of less than 3,000 issues listed on the New York Exchange; and enthusiasm for unlisted stocks has built up sharply with the new demand for 'performance' stocks to speed up the growth of an otherwise staid portfolio.

Yet many of the stock-market safeguards do not apply to unlisted securities. The National Association of Securities Dealers, which carries most of the load in regulating this market, has set up to 5 per cent (not 1 per cent, as with listed securities) as a generally reasonable commission spread. The pricing system, moreover, still includes some remnants of practices that had to be abandoned three years ago, when the SEC found that they were 'confusing if not deceptive'. Even today, prices quoted in the newspapers may bear less than a direct relationship with transactions actually taking place.

Amendments to the Securities Acts over the last four years have had the desired effect of extending a measure of protection to investors unable to resist the attractions of 'over-the-counter' securities. But a salesman who is able to confine his activities within a single state – and to avoid the use of the postal services – can still offer legal but worthless investments to the gullible. Some of the most flagrant swindles have been perpetrated in the name of real estate development.

Among the cases brought to light by Senator Warren Magnuson, a leading Democratic champion of purchaser-protection, Western Growth Capital Corporation is one of the most startling. Armed with this enticing name and claiming rights to a country-club development complete with golf course in Arizona, less than two years ago the company launched a nationwide campaign backed up with free dinners and slide shows. In a typical state, up to $\$\frac{1}{2}$ million would be committed by investors before the company representatives skipped quickly across the border and out of the range of the state law enforcement agencies. It soon emerged that the country club was almost completely non-existent and the home sites inaccessible. But meanwhile the purchase contracts signed by the investors had been sold to banks, to which they were enforceable legal documents. The whole episode underlined the dictum 'More money is being taken from Americans at penpoint than by gunpoint, and the pen often makes it legal'.

The key to this confusing situation is that outright fleecing of investors is continuing – probably increasing – but only outside the boundaries patrolled by the SEC. Indeed, a recent survey of a group of businessmen by a Jesuit priest revealed that the SEC was regarded as perhaps the most effective of all the agencies set up by the Government to protect the public. Reasons for its success doubtless include its complete independence from other arms of government, absence of any elective and thence political element in its make-up, and the appropriately professional (finance and accounting) background of the members normally appointed by the Federal Government.

All these are features of the SEC that could well be borrowed by Britain, should a similar institutional framework be adopted in the interests of British investors. Above all, it will be necessary to adopt the SEC's philosophy that what was good enough yesterday is unlikely to be good enough today. In dealing with the more extreme instances of investor exploitation, it will also be well to bear in mind Spengler's gloomy maxim, that man is a beast of prey.

Relief for Overseas Tax

by H. S. A. MACNAIR, F.C.A.

THE changes in the pattern of direct taxation in the United Kingdom inaugurated in 1965 have brought in their train alterations in the scheme of double taxation relief as substantial as those introduced twenty years earlier when the present network of double taxation agreements began to take shape.

For companies resident in the U.K. and trading abroad it is important to achieve the maximum set-off of overseas taxation liabilities against U.K. corporation tax. Section 64 of the Finance Act 1965 provides that, subject to any express amendments made by Part IV of that Act, the framework of relief elaborated in Part XIII of the Income Tax Act 1952, together with any other enactment relating or referring to double taxation relief, is to have effect in relation to income chargeable to corporation tax in the same way as it operated in relation to profits tax.

Part XIII commences with section 347 under the authority of which the majority of double taxation relief arrangements have been made. Except in so far as arrangements concluded after August 5th, 1965, provide otherwise, all the arrangements in force at that date, so far as they relate to profits tax, are validated for corporation tax purposes with the substitution of accounting periods (defined in section 51 of the Finance Act 1965) for profits tax chargeable accounting periods.

For certain limited purposes, however, it is income tax rather than profits tax with which the treatment of corporation tax is to be assimilated. One such purpose relates to reciprocal relief under section 352 for the business carried on by an owner or charterer of ships or aircraft, as illustrated by the 1949 agreement (Statutory Instrument No. 1435), with Argentina, under article 2 of which the Argentine Government agreed to exempt from income tax and all other taxes on profits, all income derived from such business of sea or air transport (of persons, goods or mail) between the Argentine Republic and other countries by U.K. undertakings engaged therein, namely, the U.K. Government, physical persons not resident in the Argentine Republic but resident in the U.K., and corporations and partnerships constituted under the laws of the U.K. and managed and controlled therein.

However, the terms of the recent agreement with Brazil (No. 572 of 1968) reflect a move towards the standardized wording proposed in the draft double taxation convention on income and capital published in 1963 by the Organization for Economic Co-operation and Development. Exemption from Brazilian Federal tax is accorded to all income derived from the business of shipping and air transport in international traffic by U.K. undertakings, that is, the Government of the U.K. and companies managed and controlled in the U.K. provided that they have their head offices there. It is noteworthy that the Brazilian agreement makes no mention of physical persons.

Credit relief by treaty

The more extensive double taxation agreements entered into under the authority of section 347 usually include a credit relief clause. Thus Article XVIII (3) of the agreement with Malaysia (No. 1925 of 1967) states that, subject to the provisions of the laws of the U.K. regarding the allowance as a credit against U.K. tax of tax payable in a territory outside the U.K., Federation tax payable – whether directly or by deduction – in respect of income from sources within the Federation is to be allowed as a credit against the U.K. tax payable in respect of that income.

In this connection section 347 (2) declares that the provisions of the Sixteenth Schedule to the Income Tax Act 1952 are to have effect where arrangements authorized under it provide that tax payable under the laws of the territory concerned shall be allowed as a credit against tax payable in the U.K. Paragraph 2 lays down that, subject to the provisions of that schedule, where under the arrangements credit is to be allowed against any of the U.K. taxes chargeable in respect of any income, the amount of the U.K. taxes so chargeable shall be reduced by the amount of the credit.

Relevance for shareholders

One context in which the reduction of the U.K. tax liabilities by credit relief assumes significance is that of the measurement of 'shortfall' under section 77 of the Finance Act 1965, since paragraph 7 of Schedule 18 defines 'distributable income' in terms of 'distributable profits' exclusive of any capital gains tax element. 'Distributable profits' for a given accounting period include the amount on which corporation tax falls finally to be borne, less the amount of that tax.

Moreover, Schedule 16 specifies that the allowance of credit granted by paragraph 2 does not authorize its allowance against any U.K. tax against which credit is not allowable under the arrangements and it would seem that this rule is the one relied upon whereby overseas taxes in excess of those required to extinguish the corporation tax liability are not permitted to spill over and mitigate the burden of Schedule F on the shareholders. Reference may be made, however, to the scheme of transitional relief elaborated in section 84 of the Finance Act 1965.

Another aspect of the necessary co-ordination of taxes may be instanced from the terms of the 1968 supplementary agreement (No. 573) with British Honduras which state that colonial tax payable under the laws of the colony and in accordance with that arrangement, whether directly or by deduction, on profits or income from sources within the colony is to be allowed as a credit against any U.K. tax computed by reference to the same profits or income by reference to which the colonial tax is computed.

Payments for know-how

The Board of Inland Revenue have drawn attention to the circumstance that payments made by a person resident in an overseas country to a person carrying on a trade in the U.K. as consideration for the use of, or for the privilege of using, in the overseas country, any copyright, patent, design, secret process or formula, trade-mark or other like property may in law be payments the source of which is in the U.K. Nevertheless, by concession, they are treated for the purpose of credit (whether under double taxation agreements or by way of unilateral relief) as income arising outside the U.K. except to the extent that they represent consideration for services, other than merely incidental services, rendered in the U.K. by the recipient to the payer.

Another point to be observed is that only the taxes designated in the agreement may be utilized for credit relief, e.g., the agreement with Italy (No. 2787 of 1962), specifies the taxes on land (*imposta sul reddito dei terreni*), on buildings (*fabbricati*), on moveable wealth (*ricchezza mobile*), on agricultural income (*redditi agrari*) and the complementary tax (*imposta complementare progressiva sul reddito*), to which is added the tax on companies (*imposta sulle società*) in so far as that tax is charged on income and not on capital. In anticipation of subsequent changes, however, this convention is also expressed to apply to any other taxes of a substantially similar character imposed in Italy.

A further consideration is that credit is not to be allowed against corporation tax for any accounting period unless the person in respect of whose income the tax is chargeable is resident in the U.K. for that period. Moreover the amount of the credit to be allowed against corporation tax is not to exceed the corporation tax attributable to that income. The question as to what relief is due in respect of any overseas tax not dealt with by way of credit is not altogether free from doubt in view of the comments of the House of Lords in *C.I.R. v. Dowdall O'Mahoney & Co Ltd* (31 A.T.C. 126; 33 T.C. 259). However, in another published extra-statutory concession (No. B.7), it is stated that the tax paid in a country outside the U.K. by a U.K. resident on business profits arising there, in general is treated as an expense of the business if credit against the U.K. tax on those profits is not allowable or the right to forego credit is exercised.

Deduction in lieu of credit

Nevertheless a refusal on the part of the Revenue to countenance the deduction of a particular overseas tax should not be too readily acceded to in view of the decision in *Harrods (Buenos Aires) Ltd v. Taylor-Gooby* (43 A.T.C. 6; 41 T.C. 450), which established the taxpayer's right to deduct the Argentine 'substitute tax' in its Schedule D, Case I, computation of trading results.

If the overseas rate effectively exceeds the U.K. rate, it will be necessary to apportion the overseas tax between the amount deductible and the amount ranking for credit relief. For those who distrust formulas it may be thought preferable to carry out this operation by the method of successive approximations. This can be illustrated on the assumption that Alpha Ltd had adjusted profits of £10,000 on which it bears overseas tax at 60 per cent. The first step is to allocate 42½ per cent to credit relief leaving £1,750 (17½ per cent of

£10,000), to be applied in reducing the amount on which U.K. corporation tax is chargeable. This step in turn releases tax allocated to credit relief of £744 (42½ per cent of £1,750), working to the nearest £. The deduction of £744 overseas tax from the U.K. tax base releases a further amount of £316 (42½ per cent of £744) and so on to £134, £58, £25, £10, £4, £2 and £1, totalling £3,044. This result can be cross-checked by observing that the residue of the tax assigned to credit relief is £2,956 £(6,000—3,044), which is matched with U.K. corporation tax at 42½ per cent on £6,956 £(10,000—3,044).

Rights of election

It will be readily apparent that whatever the mode of calculation, no U.K. tax is payable if the overseas rate is effectively higher but in some circumstances it is necessary to distinguish the components of the foreign tax respectively deductible or allowable as credit. One such case is that where losses are brought forward under section 58 (1) of the Finance Act 1965. Indeed, if the losses are substantial it would benefit the taxpayer to exercise the right of election conferred by paragraph 12 of Schedule 16 in the Income Tax Act 1952 to the effect that credit is not to be allowed. In a sense, this rule appears superfluous in view of the fact that in order to obtain credit relief, a claim must be made within six years from the end of the year of assessment for which the income in question would fall to be charged to income tax if income tax were chargeable.

Hence, in the absence of either election a no-man's-land emerges in which relief is not finally granted or withheld. This appears to offer a middle way for individual taxpayers in cases where the provisional credit granted by a paying agent for overseas dividends is in excess of their theoretical entitlement but where the Revenue do not seek to recover the excess except against any claims to repayment of income tax in respect of personal or reduced rates (see paragraph 71 of the Board of Inland Revenue publication I.R. 6).

Marginal rate displaces effective rate

It may be noticed here that section 29 of the Finance Act 1968 brings into operation the rules detailed in paragraph 3 of Schedule 16 to the Finance Act 1965 whereby in lieu of the 'effective rate' previously applied to limit the amount of overseas taxes available for credit relief, a new formula is substituted based on the marginal change in the total burden of tax attributable to the overseas income. The increment which the latter represents is to be ascertained by reference to direct and indirect taxes except where notional credit relief is granted by section 17 of the Finance Act 1961 in relation to pioneer industries.

It will be appreciated that in practice the computation of profits taxable is unlikely to yield the same figure for the purposes of both U.K. corporation tax and overseas tax. If the discrepancy is substantial, some credit relief may be permanently lost even if the overseas rate of tax is not high. With a view to mitigating this situation so far as it is attributable to the scale of allowances for capital expenditure available under U.K. legislation being more generous initially than that available under the overseas tax laws (and, in consequence, less generous in later years), section 25 of the Finance Act 1953 allows the taxpayer to claim deferment of specified allowances. The specification requires that no greater deferral be made than is required to salvage the relief at hazard but the exercise is restricted to those U.K. allowances which parallel foreign relief in respect of the same expenditure on the same assets.

Up to this point it has been assumed that the title to credit relief stems from a convention with another country. However, section 348 grants such relief unilaterally subject to the terms of the Seventeenth Schedule in the 1952 Act, although only in respect of those overseas taxes which are charged on income or profits and correspond to income tax or corporation tax.

In this connection it may be useful to refer to the list of overseas taxes published by the Inland Revenue in December 1962 and which designates those taxes officially regarded as admissible or inadmissible for double taxation relief. The list serves as a pointer not only to the taxes likely to qualify for unilateral relief in the absence of a treaty but also to those omitted from reciprocal conventions which may yet qualify for unilateral relief. However, the Republic of Ireland, with which there are special arrangements, is excluded. As regards the Isle of Man and the Channel Islands, unilateral relief under U.K. law is also allowable in respect of island taxes to a person resident there only.

A further privilege to note here results from an extra-statutory concession in favour of the U.K. branch of a non-resident bank which has in the past obtained Dominion income tax relief on its investment income, since superseded by treaty relief, and which is now concessionally treated as resident for relief purposes.

Indirect tax on dividends

A dividend from abroad presents a special problem for double taxation relief. The general rule (paragraph 9 of Schedule 16, Income Tax Act 1952), is that if the treaty arrangements provide that foreign tax not chargeable directly or by deduction in respect of the dividend (indirect tax) is to be taken into account, then the measure of the indirect tax is to be the proportion of the tax borne by the paying company on the relevant profits. The latter are identified, first, by looking to the profits of a period out of which the dividend is expressed to be paid, secondly, by looking to specified profits if it is from them that the dividend emanates and, thirdly, to the profits of the last period for which accounts of the company were made up to a date ending before the dividend became payable. If the profits designated are exceeded by the dividend, it is necessary to have recourse to earlier profits taken in sequence and excluding those already designated in relation to previous dividends.

The interpretation of this rule came up for consideration in *Bowater Paper Corporation Ltd v. Murgatroyd* (46 ATC 413), where illustrative figures were quoted by Mr Justice Cross. Assuming profits of $10,000 before deducting book depreciation of $1,000, overseas tax of $4,000 (at 50 per cent after deduction of $2,000 capital allowances) and a dividend of $3,000, the question arises as to whether the measure of the indirect tax attributable to the dividend is that yielded by the fraction $3,000 over $5,000 $(10,000—1,000—4,000) or the fraction $3,000 over $4,000 $(10,000—2,000—4,000). Was it permissible, in other words, to substitute the tax-adjusted profits for the profits shown by the accounts? The negative answer returned by the Special Commissioners and the Court appears consistent with the treatment accorded in the case of a company trading through a branch, at least until such time as the principle implicit in section 25 of the Finance Act 1953 noted above is given extended effect.

With effect from April 1st, 1968 (April 6th in the case of persons subject to income tax), unilateral credit relief for overseas tax on a dividend paid by a company resident in a territory outside the U.K. is restricted unless it can be categorized in one of three ways. The first is of general application and requires that the overseas tax in question should be directly charged on the dividend (whether by charge to tax or deduction at source or otherwise), and that it should wholly represent tax which neither the paying company nor the recipient would have borne if the dividend had not been paid.

Insurance companies

The next category is limited to a company resident in the U.K. which carries on insurance business (in respect of which it is charged to tax under Case I of Schedule D). To obtain the wider measure of relief for dividends emanating from a particular territory outside the U.K., it is requisite that part or all of the insurance business should be carried on through a branch or agency in that territory at or through which contracts are entered into by persons not resident in the U.K., thereby generating 'local premium income'. The ratio of local to total premium income constitutes the 'relevant fraction' which has to be applied to total income referable to the insurance business in the financial year from investments, including franked investment income and group income (section 48 (1) and (3) of the Finance Act 1965), so as to establish a ceiling for indirect tax relief on dividends from companies in that territory referable to the insurance business. The indirect tax to which recourse may thus be had is comprehensive in scope and includes U.K. income tax and corporation tax borne indirectly. It is, however, necessary to bring into the reckoning any relief, e.g., for direct tax, obtained under other rules.

The remaining category is that where a 'significant' proportion of the voting power in the overseas company is held by the U.K. company and the privilege outlined above for insurance companies may be viewed as a limited extension of it. A number of double tax agreements under re-negotiation have had written into them a clause to benefit companies with a stated proportion ranking as 'significant' and the rules for unilateral relief have been brought into line. Section 30 (2) of the Finance Act 1966, prescribes a general 25 per cent fraction as 'significant' but for dividends from companies resident in the Commonwealth territories 10 per cent suffices.

Extended group relationships

The range of companies eligible under unilateral relief rules is increased by the rule that a company which is at least a 50 per cent subsidiary of a company which enjoys significant control is itself to be deemed to enjoy that degree of control. Section 30 of the Finance Act 1968 introduces a similar rule for companies in a position to claim a 'significant' proportion of voting power under treaty arrangements and it appears that this amendment does no more than close a gap in the scheme of relief (*Hansard*, July 2nd, 1968). Section 29 also modifies the rules by substituting for paragraph 7 in Schedule 16 of the 1952 Act the provisions set out in paragraph 2 of Schedule 16 in the 1965 Act. The new rules provide that if the source is assessed on a remittance basis, then the dividend received is to be increased by the amount of the credit but in other circumstances the dividend arising abroad is to be grossed up for the indirect tax. The extension of relief by section 30 takes effect as regards dividends paid after March 31st, 1968, and for this purpose dividends are to be treated as paid on the date when they become due and payable.

At this point it will be convenient to refer to extra-statutory concession No. C.1 which may be read in *The Accountant*, dated June 10th, 1968, as its terms are somewhat lengthy. In principle the effect of the concession is to extend the catchment area for possible indirect tax ranking for relief to the whole infra-structure of complex groups with multiple overseas interests.

Finally, it may be observed that in relation to corporation tax in respect of chargeable gains such of the provisions of Part XIII of the Income Tax Act 1952 as are applicable to capital gains tax are to have effect as they have effect in relation to corporation tax. In the absence of credit relief, however, the right to set off overseas taxes by deduction is conferred by paragraph 20 in Schedule 6 of the Finance Act 1965.

Valuation of Stock-in-trade by Statistical Sample

by D. McCOMB, B.Sc.(Econ.), F.A.C.C.A.

THE Report[1] of the International Study Group formed jointly by the American Institute of Certified Public Accountants, the Canadian Institute of Chartered Accountants and the Institutes of Chartered Accountants in England and Wales, Scotland and Ireland focused attention on the responsibility of the auditor for the verification of and the valuation placed upon stock-in-trade and work in progress in clients' accounts. In its conclusions the study group said:

> 'attendance to observe physical inspection of inventories is a most significant verification procedure for audit purposes. This practice has received more forceful emphasis in North America than in the United Kingdom. We endorse its desirability and commend its adoption as internationally recognized standard practice'.

The Council of The Institute of Chartered Accountants in England and Wales has since (July 1968) reviewed its Statement on Auditing No. 2, 'Stock-in-trade and Work in progress' (March 1962) and brought it into line with the study group's recommendations:

> '. . . wherever it is practicable, and stock-in-trade and work in progress is a material factor in the business, the auditors should satisfy themselves as to the effectiveness of the application of the clients' stock-taking procedures by observation on a test basis of these procedures whilst the stock-taking is in progress'.[2]

Clearly, United Kingdom auditors must now become more directly involved with inventory control. Many, of course, have been so for some time but undoubtedly a great many auditors have tended to shy away from accepting any responsibility in this connection.

Statistical sampling

Statistical methods of stock checking may nowadays be suggested or used by clients and the auditor may feel called upon to decide whether the results are statistically valid and provide a sufficiently accurate estimate of value. A first stage must therefore be an examination of the sampling plan, and if it is acceptable the auditor should then see that it is carried out rigorously.

The sampling plan used may vary according to the nature of the records which are available but as it is unlikely that statistical methods would be found in use in concerns which had inferior records, the methods described below assume that adequate records are kept.

Selecting the sample

If the estimate of inventory value is to be statistically valid, the items making up the sample must be chosen at random, that is, each item must have an equal chance of being chosen. Suppose a situation in which there are 6,000 items of stock numbered from one upwards and that it is desired to select a random sample of one hundred items. The normal approach is to select a starting-point in a table of random numbers. This can be done in any way.

Suppose, for instance, we choose to commence on the eleventh line down column (2) of the accompanying table. The numbers chosen must be from 1–6,000 and as the table contains five-figure numbers we disregard either the left or right-hand digit. If we take the first four digits reading from the left we read 6,957. This must also be disregarded as it is over 6,000. We may now move in any direction. If we move downwards the next number is 4,096, which is one of the numbers to be sampled; the usable numbers following are 1,276, 2,138, 5,409, 5,391, 5,849, 3,236 and so on until we have chosen one hundred random numbers. (In practice, it may later be necessary to draw a few more numbers as some of those drawn may represent blank positions, e.g., number positions held for new items of stock. To cope with such a situation the final random number position on the table of random numbers should be noted so that the remaining numbers required may be drawn in sequence.)

Before use, the random numbers chosen will usually be arranged in the form of an array, i.e., in order from lowest to highest number, as it is normally easier to inspect records in that order. In this connection it should be noted that if more than 100 random numbers have been drawn in order to provide for null positions in the stock records – e.g. if 110 random numbers are drawn, then if the 110 numbers are

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[1] 'Accounting and Auditing Approaches to Inventories in three Nations: stock-in-trade and work in progress in Canada, the United Kingdom and the United States.' (See *The Accountant*, January 27th, 1968.)

[2] Paragraph 2 of revised statement (*The Accountant*, July 13th, 1968, page 36).

TABLE OF 105,000 RANDOM DECIMAL DIGITS (EXTRACT)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1	10480	15011	01536	02011	81647	91646	69179	14194	62590	36207	20969	99570	91291	90700
2	22368	46573	25595	85393	30995	89198	27982	53402	93965	34095	52666	19174	39615	99505
3	24130	48360	22527	97265	76393	64809	15179	24830	49340	32081	30680	19655	63348	58629
4	42167	93093	06243	61680	07856	16376	39440	53537	71341	57004	00849	74917	97758	16379
5	37570	39975	81837	16656	06121	91782	60468	81305	49684	60672	14110	06927	01263	54613
6	77921	06907	11008	42751	27756	53498	18602	70659	90655	15053	21916	81825	44394	42880
7	99562	72905	56420	69994	98872	31016	71194	18738	44013	48840	63213	21069	10634	12952
8	96301	91977	05463	07972	18876	20922	94595	56869	69014	60045	18425	84903	42508	32307
9	89579	14342	63661	10281	17453	18103	57740	84378	25331	12566	58678	44947	05585	56941
10	85475	36857	53342	53988	53060	59533	38867	62300	08158	17983	16439	11458	18593	64952
11	28918	69578	88231	33276	70997	79936	56865	05859	90106	31595	01547	85590	91610	78188
12	63553	40961	48235	03427	49626	69445	18663	72695	52180	20847	12234	90511	33703	90322
13	09429	93969	52636	92737	88974	33488	36320	17617	30015	08272	84115	27156	30613	74952
14	10365	61129	87529	85689	48237	52267	67689	93394	01511	26358	85104	20285	29975	89868
15	07119	97336	71048	08178	77233	13916	47564	81056	97735	85977	29372	74461	28551	90707
16	51085	12765	51821	51259	77452	16308	60756	92144	49442	53900	70960	63990	75601	40719
17	02368	21382	52404	60268	89368	19885	55322	44819	01188	65255	64835	44919	05944	55157
18	01011	54092	33362	94904	31273	04146	18594	29852	71585	85030	51132	01915	92747	64951
19	52162	53916	46369	58586	23216	14513	83149	98736	23495	64350	94738	17752	35156	35749
20	07056	97628	33787	09998	42698	06691	76988	13602	51851	46104	88916	19509	25625	58104
21	48663	91245	85828	14346	09172	30168	90229	04734	59193	22178	30421	61666	99904	32812
22	54164	58492	22421	74103	47070	25306	76468	26384	58151	06646	21524	15227	96909	44592
23	32639	32363	05597	24200	13363	38005	94342	28728	35806	06912	17012	64161	18296	22851
24	29334	27001	87637	87308	58731	00256	45834	15398	46557	41135	10367	07684	36188	18510
25	02488	33062	28834	07351	19731	92420	60952	61280	50001	67658	32586	86679	50720	94953
26	81525	72295	04839	96423	24878	82651	66566	14778	76797	14780	13300	87074	79666	95725
27	29676	20591	68086	26432	46901	20849	89768	81536	86645	12659	92259	57102	80428	25280
28	00742	57392	39064	66432	84673	40027	32832	61362	98947	96067	64760	64584	96096	98253
29	05366	04213	25669	26422	44407	44048	37937	63904	45766	66134	75470	66520	34693	90449
30	91921	26418	64117	94305	26766	25940	39972	22209	71500	64568	91402	42416	07844	69618

Source: Table of 105,000 Random Decimal Digits, Interstate Commerce Commission, Bureau of Transport Economics and Statistics, USA.

arranged in the form of an array it is not possible to terminate sampling when 100 items have been sampled. To do so would destroy the random character of the sample as the discards would all be among the higher random numbers. If this method is used all 110 random number positions must be tested. This may result in, say, 106 items being checked instead of 100 items; although in some circumstances it may be more convenient to do so, rather than be obliged to go back over old ground when, e.g. the original 100 random numbers yielded only 97 live positions. It would be preferable, for instance, to use a slightly larger sample than was required, rather than to make a second sample check if the inventories were held on different sites widely separated from one another, or if testing resulted in some disruption of production. In any case the larger sample can only result in higher sample reliability.

Sampling plans

The sampling plan to be used depends largely on the quality of the stock records. Of the four plans described, (i) and (ii) assume that the records are in quantity only, while (iii) and (iv) assume that records of value also are kept.

Plan (i)

The essence of plan (i), which is the least sophisticated of the four described, is that an average value per item of stock is calculated and then multiplied by the number of items (the population) to arrive at an estimate of the total value. The problem, therefore, is to estimate this average value at a stated reliability and an acceptable confidence level, so that having completed his test the accountant may make a statement such as:

Value of stock-in-trade at March 31st, 19...

=£184,000±3 per cent at 99·5 per cent confidence level

or he may state with 99·5 per cent confidence that the value of stock in hand is not less than £178,480 and not more than £189,520.

If the statistical error of 3 per cent is too high, or if a greater degree of confidence in the result is required, both objectives can be achieved by increasing the sample size. The arithmetic means of random samples will tend towards a normal distribution so that

$$\sigma\bar{x}=\frac{\sigma}{\sqrt{n}}$$

for an infinite or very large population where

$\sigma\bar{x}$=standard error of mean

σ =standard deviation of the population from which the sample was taken, i.e. the total stocks or inventories

n =sample size

For a finite population from which a sample is taken without replacement the formula is:

$$\sigma\bar{x}=\frac{\sigma}{\sqrt{n}}\sqrt{1-\frac{n}{N}}$$

where

N=number of items in population, i.e. stock.

Since the distribution of means tends to approximate to a normal curve, it is possible to calculate the area enclosed by it as a multiple of the standard deviation (σ) of the population. These figures can be obtained from a table of areas enclosed between the mean and an ordinate of a normal curve. The following are most likely to interest accountants:

Distance between mean and ordinates on either side of it in terms of standard deviation ±Z	*Percentage of area of curve enclosed*
1·96	95·0
2·00	95·4
2·33	98·0
2·50	98·8
2·58	99
3·00	99·7
3·30	99·9

The formula for calculating the standard error of the sample mean can be restated to allow for the acceptable confidence level:

Infinite or very large population:

$$\sigma\bar{x}=Z\frac{\sigma}{\sqrt{n}}$$

Finite population, without replacement:

$$\sigma\bar{x}=Z\frac{\sigma}{\sqrt{n}}\sqrt{1-\frac{n}{N}}$$

In the above formulae the accountant should at the outset have determined what values of $\sigma\bar{x}$ and Z he is prepared to accept and N is, of course, known. The unknowns are therefore n and σ so that before the sample size (n) can be calculated it is necessary to estimate the standard deviation of the population (σ). This estimate may be made on the basis of the accountant's past experience of the firm's stock records but such an approach can give misleading results as the condition of the records may have altered radically since the last check, due for example to manipulation in the period under review. Because of this it is preferable that the value of the standard deviation of the population should be estimated from a preliminary

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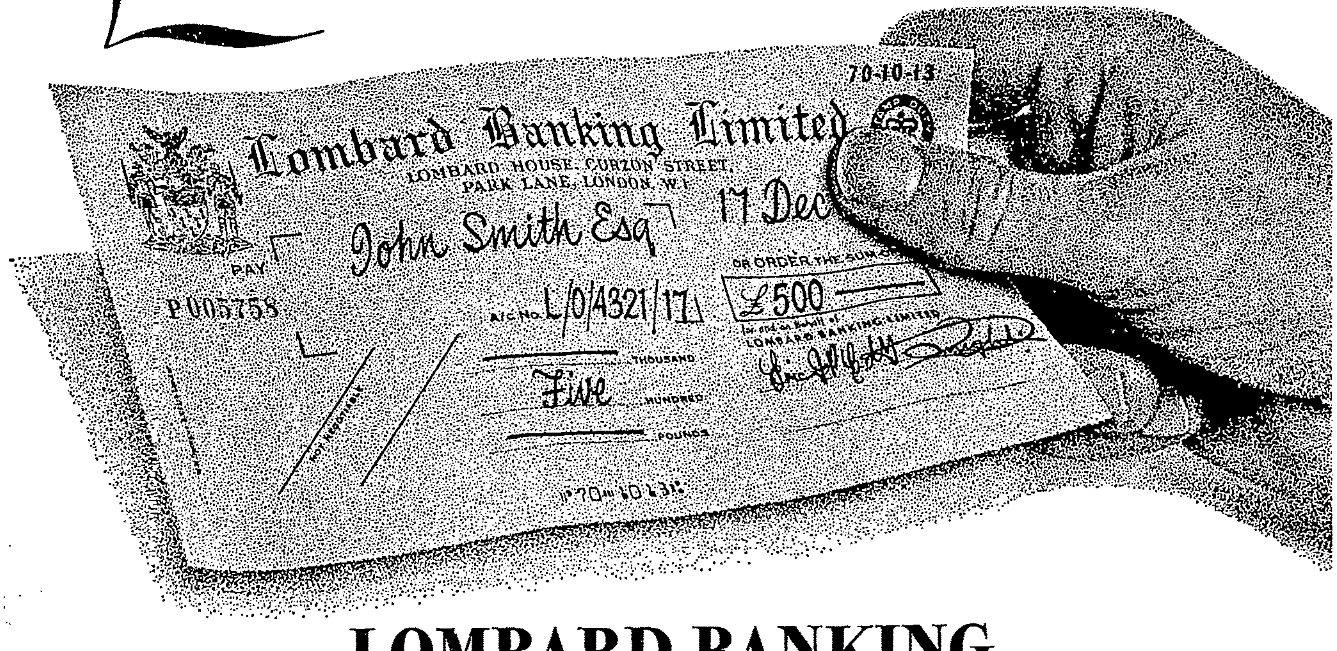

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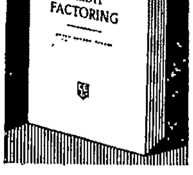

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sample of, say, seventy items if this can be done without excessive expense.

Having calculated the size of sample required to give a result of acceptable precision with the required degree of confidence, the sample should be randomly selected as described above. The value of stock may then be estimated on the basis of the sample chosen.

It is important to recognize that the result will be valid only if the distribution of the population of stocks held is normal. If it is skewed because of the existence of some very high value items, resort must be had to other methods of estimation such as stratification as described under Plan (ii).

Plan (ii): Stratified sampling

The existence of a small proportion of items of stock which are of above-average value may make stratification of the population of stock items desirable. Thus, in a situation where there are 9,800 items of stock varying in value between £1 and £5,000, stratification may yield the following:

Value	*Number of items*
£1,000 and over	40
£100 and under £1,000	600
under £100	9,160
	9,800

It is obvious that the dispersion of values in the higher value groups is greater than that in the lower value groups so that a much larger sample proportionately would be required from these higher value groups. It would, in fact, be desirable to carry out a 100 per cent check on the items value £1,000 and over.

It remains to determine the sample size and its division between the strata. The division may be in simple proportion to the number of items in each stratum, but better division is achieved as follows:

$$n_i = \left(\frac{N_i\ \sigma_i}{\Sigma N_i\ \sigma_i}\right) n$$

where

n = size of sample

n_i = number of sample items allocated to each stratum

N_i = total number of items in each stratum

σ_i = standard deviation of each stratum

The following method[1] may be used for calculating the sample size required from each stratum:

Number of sample items:

$$= \frac{N_i\ \sigma_i\ \Sigma(N_i\ \sigma_i)}{N^2(\frac{1}{Z} SE)^2 + \Sigma(N_i\ \sigma_i^2)}$$

where

N_i = number of items in stratum

σ_i = standard deviation for each stratum

SE = desired sample precision for an average

N = total field size

Z = values taken from table of distances between mean and ordinates of a normal curve in terms of standard deviations

The size of sample required from each stratum may be calculated as follows:

Value	*Number of items in strata* N_i	*Standard deviation of strata** σ_i £	$N_i\ \sigma_i$	$N_i\ \sigma_i^2$
£1,000 and over	40	400	16,000	6,400,000
£100 and under £1,000	600	60	36,000	2,160,000
under £100	9,160	10	91,600	916,000
	9,800		143,600	9,476,000

*Derived from preliminary sample or from previous experience.

In the examples below a confidence level of 95 per cent is used ($Z=1{\cdot}96$), and an acceptable precision of ± £15,000 in the estimate of total value of stock is assumed.

Sample sizes required

Items of value £1,000 and over:

$$\frac{16{,}000 \times 143{,}600}{96{,}040{,}000\ (0{\cdot}51 \times 1{\cdot}53)^2 + 9{,}476{,}000} = 34$$

In practice, however, all forty items in this group would be checked.

Items of value £100 and under £1,000:

$$\frac{36{,}000 \times 143{,}600}{96{,}040{,}000\ (0{\cdot}51 \times 1{\cdot}53)^2 + 9{,}476{,}000} = 77$$

Items of value under £100:

$$\frac{91{,}600 \times 143{,}600}{96{,}040{,}000\ (0{\cdot}51 \times 1{\cdot}53)^2 + 9{,}476{,}000} = 194$$

---

[1] Herbert Arkin, *Handbook of Sampling for Auditing and Accounting*, pages 191–194.

The sample required may therefore be summarized:

Value	Number of items to be checked	Total number of items
£1,000 and over	40	40
£100 and under £1,000 . .	77	600
under £100	194	9,160
	311	9,800

If the estimate of the standard deviations of the strata have been good, a sample of 349 items will give an estimate of inventory value to within ± £15,000 at 95 per cent confidence level. Greater precision than ± £15,000 and higher confidence levels than 95 per cent can be achieved by increasing the size of the sample taken from each stratum.

Plan (iii): Difference estimates

If all records being audited have an established book value, the method of difference estimates can be used to achieve a higher sample reliability with a given sample size than would be achieved by a projection of total value based on the methods used in Plans (i) and (ii). This is because the sample reliability is dependent on the standard deviation of the items sampled, and when item values differ considerably the standard deviation tends to be large. In the ordinary way the standard deviation can only be reduced by increasing the sample size or by resorting to stratification of the data being tested.

Using difference estimates, however, the total value of all items of stock can be estimated within much narrower limits, since the standard deviation of the differences between the unchecked book values and the checked values will be smaller than the standard deviation of the actual values of the items sampled. Generally, difference estimates may be used if the above conditions regarding records of quantity and value are fulfilled and the amount of any error is not directly related to the size or value of the item being checked.

Assume that there are 10,000 items of stock with a book value of £986,244 and a sample of 225 items is chosen at random and the following calculations made:

	£	s	d
Average book value per item	128	6	10
Average audited value per item	130	1	4
Average difference between audited value and book value per item	4	4	0

The sum of estimated differences between audited and book values of stock is:

£4 4*s* × 10,000=£42,000.

It is, however, necessary to calculate the sample reliability of the average of differences. This involves calculating the standard deviation (σ) of the differences (note (1) below), and also the sampling error of the average (note (2) below). It can be seen from the formula (note 2) that the size of the sampling error is affected by the size of the standard deviation (σ).

If, on calculation, the standard deviation is £6 6*s*, the standard error may then be calculated as follows, a confidence level of 95 per cent being assumed:

$$SE = 1{\cdot}96\frac{\pounds 6{\cdot}3}{\sqrt{225}}\sqrt{1-\frac{225}{10{,}000}}$$

$$=\pounds 0{\cdot}8140$$

Precision of total of differences at 95 per cent confidence level:

±£0·8140 × 10,000=±£8,140

Estimated total difference between audited and book values of inventory:

£42,000±£8,140

Estimated value of inventory:

£		£
986,244		986,244
+ 33,860		+ 50,140
£1,020,104		£1,036,384

or

£1,028,244±£8,140

Plan (iv): Ratio estimate

A ratio estimate may be used for the purpose of valuing stocks where records already exist in quantity and value and is particularly advantageous since there is usually some relationship between the value of any error found and the value of the item of stock being checked. Generally this plan will give a higher reliability with given sample size than Plans (i) and (ii).

If a random sample of 225 items is taken and the book value and counted value of inventory recorded for each item, a total of counted values and book values will be obtained. Assume these to be £9,800 and £9,600. The ratio is then:

$$\frac{\text{Counted values}}{\text{Book values}}=\frac{\pounds 9{,}800}{\pounds 9{,}600}=1{\cdot}02083$$

Assume also that there are 10,000 items of inventory with a total book value of £860,000. The sample

---

(1) $$\sigma=\sqrt{\frac{Z(X^2)}{n-1}}$$

where X=audited value − book value of stock items

(2) $$SE=Z\frac{\sigma}{\sqrt{n}}\sqrt{1-\frac{n}{N}}$$

suggests that the true value is 1·0208 times the book value so that an estimate of total value is £860,000 × 1·0208 = £877,914. It remains to calculate the accuracy of this estimate of value.

The standard deviation of the ratio:

$$\sigma=\sqrt{\frac{\Sigma(x-RY)^2}{n-1}}$$

where

x = actual value of the items counted

R = ratio of actual counted value to book value

Y = book value of items counted

n = number of items in sample.

Having obtained the standard deviation, it is necessary to calculate the standard error of the total at a given reliability, as follows:

$$SE=Z\frac{N\sigma}{\sqrt{n}}\sqrt{1-\frac{n}{N}}$$

The following table shows how the calculation of the standard deviation and standard error could proceed.

(1)	(2)	(3)	(4)	(5)	(6)
	Value		(*Book*	[(2)–(4)]	$(5)^2$
Item	*on*	*Book*	*value*)		
number	*count*	*value*	× *Ratio*		
	x	y	Ry	$(x-Ry)$	$(x-Ry)^2$
	£	£	(R = 1·0208)		
225 Random numbers	60	60	61·2480	— 1·2480	1·5575
	56	56	57·1648	— 1·1648	1·3568
	85	85	86·7680	— 1·7680	3·1258
	137	136	138·8288	— 1·8288	3·3445
	35	35	35·7280	— 0·7280	0·5300
	64	64	65·3312	— 1·3312	1·7721
	112	112	114·3296	— 2·3296	5·4270
	93	93	94·9344	— 1·9344	3·7419
	64	66	67·3728	— 3·3728	11·3758
	.	.	.	.	.
	.	.	.	.	.
	.	.	.	.	.
	.	.	.	.	.
	65	60	61·2480	— 3·7520	14·0775
	216	215	219·4720	— 3·4720	12·0548
	22	22	22·4576	— 0·4576	0·2094
	107	107	109·2256	— 2·2256	4·9533
	103	103	105·1424	— 2·1424	4·5899
	£9,800	£9,600		£—321·7248	£1,621·3288

$$\sigma=\sqrt{\frac{1621{\cdot}3288}{225-1}}$$

$$=£2{\cdot}6904$$

$$SE=1{\cdot}96\,\frac{10{,}000\,(2{\cdot}6904)}{\sqrt{225}}\sqrt{1-\frac{225}{10{,}000}}$$

$$=£3{,}475{\cdot}7313$$

The estimate of total value of inventory at 95 per cent confidence level is therefore:

£877,914 ± £3,476

or between £874,438 and £881,390.

The auditor

Clearly the auditor must be thoroughly grounded in statistical techniques if he is to pass judgement on the acceptability of sampling methods used by clients. Ideally he should come in at the planning stage when the system is being set up. Irrespective of what sampling plan is used, however, the long-established principles of auditing continue to apply. The auditor must be satisfied that the methods used enable a proper valuation of stocks to be made, and he should take into account such factors as perishability, obsolescence, vulnerability to pilfering, etc.

It is important that preoccupation with techniques should not become a substitute for the auditor's judgement. Statistical prediction cannot replace an opinion based on a knowledge of the background of a firm and years of experience gained in practice. In the final reckoning statistical skills are no more than an extension of the ability to add and subtract. In the future, however, they are likely to become just as important a part of the equipment of the accountant as those elementary skills have always been.

Selected references

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MANAGEMENT INFORMATION

Programming Capital Investment Projects

CONVENTIONALLY, capital investment policy is based on an assessment of the worth of each project *as it becomes available*. Sometimes pay-back, or pay-back together with a calculation giving the discounted cash flow rate of return, is used. Recently the correctness of the DCF approach has been widely recognized, and this technique has been increasingly relied upon.

DCF implies a comparison between the cash flow-out on the investment (whether in stocks and shares, a new factory, a replacement machine or additional expenditure in research and development, advertising, etc.), and the cash flow-in from increased profits and revenue, or reduced costs. Like is certainly being compared with like. The theoretical validity of the technique is unquestionable. There are, however, one or two criticisms – if that is the right word – that can be made of it.

First, financial managers of business concerns, though interested in cash flows, are also concerned with the effects on reported results as published in the balance sheet and profit and loss accounts. Secondly, since the cash flow from any project affects the cash availability for other projects, the overall picture needs to be considered; in other words, the optimum result is not necessarily obtained by assessing the worth of each project *in vacuo*. This is obviously true when – as is usual – funds are limited. Thus, any particular project may give a satisfactory rate of return, yet if this project is taken up, funds may not then be available for another investment project materializing in the near future which is likely to have a far higher rate of return than the original project.

How, then, is it possible to take into account the effect of one investment project on another, at the same time paying due attention to how these results will affect financial results (in both annual published accounts, and quarterly or half-yearly management accounts). A mathematical model[1] expressed in linear programming terms seems to supply the answer.

Let us first consider how we can express the constraints which yearly published accounts demand in simple linear terms. These constraints are likely to be of three types:

(1) short-term cash availability;

(2) long-term cash supply;

(3) profitability.

The two ratios which best sum up the short-term cash position are the current ratio and the quick assets (or acid test) ratio. If – for the purposes of exposition – we take an 'entirely average' company, these ratios should not be less than around 2 and 1 respectively. So the first two constraints can be expressed as:

$$\frac{\mathrm{CA}}{\mathrm{CL}} \geq 2$$

$$\frac{\mathrm{QA}}{\mathrm{CL}} \geq 1$$

The accepted standard for long-term cash requirements is that the gearing should not be above one-third (again we are taking a hypothetical average company in an average industry; in practice, of course, the precise ratios used will depend very much on the type of company and the type of industry in which it is operating). In ratio form:

$$\frac{\text{Long-term debt}}{\text{Invested capital}} \leq \tfrac{1}{3}$$

Profitability presents a rather more difficult problem. Most companies are concerned that the return on investment, that is, the before-tax profit compared with the net assets, should improve from year to year. Our 'average' company will, therefore, have a rate of return of just over 13 per cent, and the constraint is that this should increase year by year. (Since long-term planning becomes meaningless if taken too many years in the future, it is usual to put a horizon of five years or so on this and indeed on all the constraints and requirements.) However, as the Government is prepared to allow dividends to increase by 3½ per cent per annum and since most companies like to limit their distribution on dividends to a certain proportion of their after-tax profits, it may be that this constraint should be altered to ensure that the rate of return shall increase by not less than 3½ per cent per annum.

Linear programming requires that, subject to certain restraints, something should be maximized. What should this 'something' be for a company? If it is agreed that the current owners of the company should have their interests exclusively considered, then the aim must be to maximize the present value of the stream of dividends and the terminal value (at horizon date) of the ordinary shares. Alternatively – and this is far easier – the aim may be to maximize total before-tax profits over the five-year period. That is, to maximize:

$$\Sigma\, \mathrm{NP}\ (\mathrm{BT}), \text{ where T varies from 1 to 5.}$$

The final step is to take all the present and estimated future investment projects and calculate their individual effect on the cash flows. The computer will then work through all the possible combinations, rejecting those which exceed one or more of the agreed constraints, and finally produce that combination which maximizes either the net benefit to shareholders or overall net profit before tax.

---

[1] For a fairly detailed exposition of such a model see 'Programming the Allocation of Funds Subject to Restrictions on Reported Results', by David Chambers, London Graduate School of Business Studies, in *Operational Research Quarterly*, December 1967.

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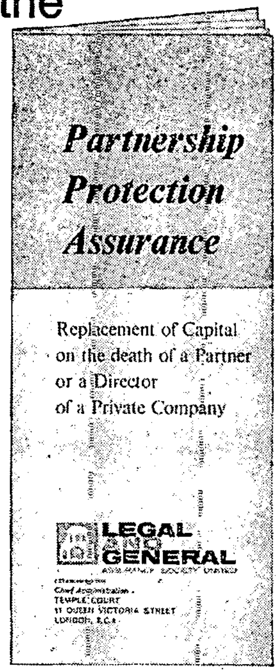

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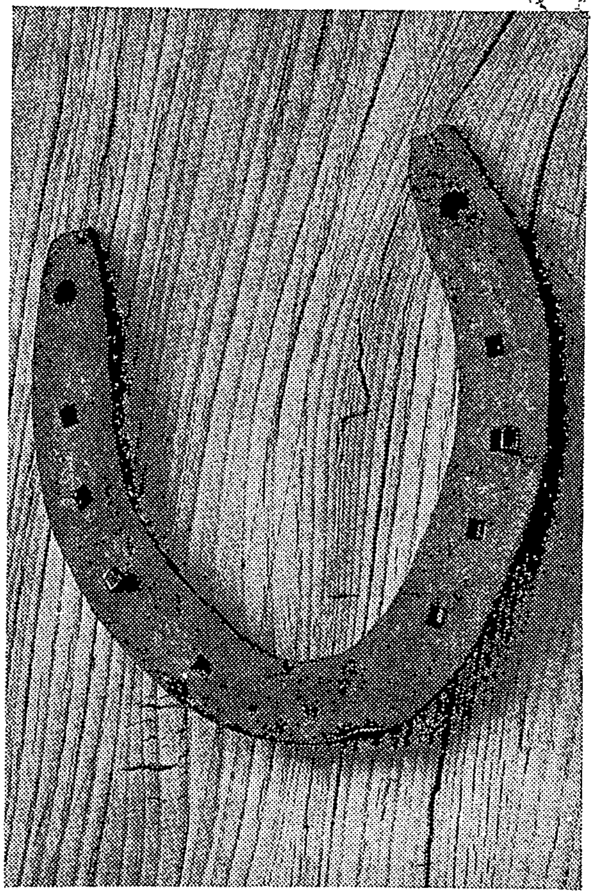

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ACCT 7.9

Finance and Commerce

Plain figures

THIS column has long held to the knowledge and belief that plain figures plainly presented are worth far more in terms of information than words and graphs in company reports. Yielding to the temptation to dress up figures under the misapprehension that lay readers of company reports are only able to understand figures in 'cutting the cake' form, invariably means that time, effort, money and space in the report itself are wasted on trying to explain figures which, if properly presented, are self-explanatory.

In the report of Airfix Ltd, from which this week's reprint is taken, there is under the heading 'Activities of the Group', a set of plain figures which allows shareholders a much clearer look at the company's operations than has been permitted before.

The figures and the very few accompanying words are as follows:

Activity	*Turnover* £	*Per cent*	*Group profits before taxation* £	*Per cent*
Toys	2,822,000	50	396,000	78
General plastics ..	2,025,000	36	154,000	30
Metal housewares	798,000	14	(42,000)	(8)
	£5,645,000	100	508,000	100
Parent company administration		..	(28,000)	
			£480,000	

The final line under the table refers readers to details of the principal subsidiary companies elsewhere in the report.

Fair perspective

This is the first time that the company has broken down turnover and profits by category and the point of whether or not the information would have been given without the 1967 Act is neither here nor there. The fact is that the information has been provided succinctly and without any resort to wordy explanations or pictorial presentation.

'We feel', writes Mr Ralph Ehrmann, chairman and managing director, in his accompanying statement, 'that this will give our shareholders a fair perspective of the activities in which we are engaged'. Additionally, he comments that the toy section was profitable throughout the year, although two-thirds of its profits were earned in the second half. The toy trade was not at exceptional levels, 'as it included one period of de-stocking (in the first half of the year), and one of re-stocking (in the second half)'.

General plastic products cover items made 'for houseware, industrial and premium outlets', and it is not considered that a further breakdown in this classification would be helpful 'because none of the numerous and different outlets of these companies achieved a significant level of turnover'. The metal housewares loss was 'a great disappointment', because new products have failed to do as well as expected. It is hoped that this particular end of the group will be trading profitably by the end of this financial year.

Dividend restoration

In a pocket at the back of the Airfix accounts there are leaflets issued by various members of the Airfix Group illustrating some of the currently marketed products. The leaflets, as well as being sales material, provide shareholders with a pictorial look at the bulk of the group's range of products from model racing-car circuits and construction kits to combs and colanders.

The improvement in group performance in the year to last March allowed the first step towards restoration of the previous year's reduction from 21½ per cent to 15 per cent in dividend – the 1967–68 payment being increased to 18 per cent covered 1·43 times by available earnings. Current order books are described as 'satisfactory' and current trends as 'encouraging'.

It would seem, though, that much of the 1967–68 improvement in profits (profits were in the £770,000 region in 1963–64 incidentally), stemmed from the consumer spending outburst which followed devaluation and ran on well past the end of the company's financial year.

The chairman comments that results for the first half of the year were 'burdened by the conscious decision to reduce stocks as well as by an unfavourable climate'. In the second half 'not only was there a general upturn in trade but the reduced level of stocks allowed our factories to be operated with a fuller utilization of capacity'. Exports at £817,000 accounted for 15 per cent of total turnover.

Long way to go

Apart from the breakdown of turnover and profits by groupings, the Airfix report and accounts falls short of modern requirements of presentation and content. Airfix, it will be noted, clings to old-style balance sheet and profit and loss account presentation and the number of company accounts in which the old two-sided profit and loss account form still appears is depressing. Companies, by now, should surely have got away from balances 'carried down' and 'brought forward' but there are still plenty which have failed to do so.

There is no real reason why £480,893 should be called 'Consolidated profit before taxation', in the directors' report and 'Balance carried down' in the profit and loss account. It probably goes without saying that, since Airfix presents its balance sheet in double-sided 'gross' form, there is no statistical record showing profits in terms of employed capital – in fact there is no running statistical record at all.

Next year there should be a statistical record and under 'Activities of the Group' comparative figures should be provided. The Airfix report has made a start at being informative, but there is a long way to go yet.

AIRFIX INDUSTRIES LIMITED

BALANCE SHEET AS AT 31st MARCH 1968

1967 £		1968 £	1968 £
	CAPITAL AND RESERVES		
	SHARE CAPITAL		
	Authorised		
120,000	600,000 Ordinary Shares of 4s. each	120,000	
1,380,000	6,900,000 Non-Voting Ordinary Shares of 4s. each	1,380,000	
£1,500,000		£1,500,000	
	Issued and Fully Paid		
120,000	600,000 Ordinary Shares of 4s. each		120,000
1,055,420	5,277,100 Non-Voting Ordinary Shares of 4s. each		1,055,420
1,175,420			1,175,420
334,714	SHARE PREMIUM ACCOUNT		334,714
1,636	INVESTMENT GRANTS RESERVE		905
352,475	PROFIT AND LOSS ACCOUNT		326,276
1,864,245			1,837,315
723,500	MORTGAGE (Note 6)		723,500
85,000	DEFERRED LIABILITIES (contingently due to vendors of Subsidiaries)		85,000
	CURRENT LIABILITIES		
21,182	Sundry Creditors	30,465	
99,911	Proposed Final Dividend	135,173	
121,093			165,638
£2,793,838			£2,811,453

1967 £		1968 £ Cost	1968 £ Accumulated Depreciation	1968 £
	FIXED ASSETS			
51,863	Plant and Equipment	£81,064	£37,588	43,476
	[1967:	£77,764	£25,901]	
916,104	INVESTMENTS—Subsidiary Companies			916,398
	GROUP INDEBTEDNESS—Subsidiary Companies:			
865,766	Deferred Loan Accounts		1,011,153	
939,599	Current Accounts		818,117	
1,805,365				1,829,270
	CURRENT ASSETS			
4,768	Stationery Stock		3,934	
3,370	Sundry Debtors		18,120	
4,658	Taxation Recoverable		—	
7,710	Cash at Bank and in Hand		255	
20,506				22,309
£2,793,838				£2,811,453

R. R. M. EHRMANN } Directors
J. A. S. GRAY }

AIRFIX INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT 31st MARCH 1968

1967 £		1968 £	1968 £
	CAPITAL AND RESERVES		
	SHARE CAPITAL		
	Authorised		
120,000	600,000 Ordinary Shares of 4s. each	120,000	
1,380,000	6,900,000 Non-Voting Ordinary Shares of 4s. each	1,380,000	
£1,500,000		£1,500,000	
	Issued and Fully Paid		
120,000	600,000 Ordinary Shares of 4s. each		120,000
1,055,420	5,277,100 Non-Voting Ordinary Shares of 4s. each		1,055,420
1,175,420			1,175,420
334,714	SHARE PREMIUM ACCOUNT		331,714
71,697	INVESTMENT GRANTS RESERVE (Note 7)		132,620
709,255	PROFIT AND LOSS ACCOUNT		800,971
2,291,086			2,443,725
798,000	MORTGAGES (Note 6)		776,089
85,000	DEFERRED LIABILITIES (contingently due to vendors of Subsidiaries)		85,000
121,300	CORPORATION TAX due 1st January, 1969		177,325
	CURRENT LIABILITIES		
1,140,852	Sundry Creditors	1,211,472	
631,616	Bank Overdrafts	590,430	
96,297	Current Taxation	48,142	
99,911	Proposed Final Dividend	135,173	
1,968,676			1,985,217
£5,264,062			£5,467,356

1967 £		1968 £ At Valuations (Note 1) and Additions at Cost	1968 £ Accumulated Depreciation	1968 £
	FIXED ASSETS			
1,243,326	Freehold Land and Buildings	1,300,957	—	1,300,957
48,000	Leasehold Land and Buildings	200,474	158,144	42,330
801,560	Plant and Equipment	1,548,198	795,458	752,740
2,092,886		£3,049,629	£953,602	2,096,027
	[1967:	£2,859,522	£766,636]	
476,136	PREMIUMS ON ACQUISITION OF SHARES (Note 5)			476,430
	MOULDS			
1,938,266	At cost	2,247,738		
1,537,996	*Less*: Amounts written off	1,813,216		
400,270				434,522
	CURRENT ASSETS			
1,253,198	Stock and Work-in-Progress	1,041,622		
1,023,201	Sundry Debtors (after provision for doubtful debts)	1,387,695		
18,371	Cash at Banks and in Hand	31,060		
2,294,770				2,460,377
£5,264,062				£5,467,356

R. R. M. EHRMANN }
J. A. S. GRAY } Directors

AIRFIX INDUSTRIES LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 1968

Year ended 31st March, 1967 £		Year ended 31st March, 1968 £	Year ended 31st March, 1968 £
	Provision for Depreciation and Amounts written off:		
6,662	Leasehold Properties	6,482	
161,106	Plant and Equipment	188,308	
298,796	Moulds	281,538	
4,326	Loss on Disposal of Fixed Assets	3,306	
470,890			479,634
	Directors' Emoluments:		
500	Fees	500	
26,090	Other Emoluments	39,384	
8,000	Compensation for Loss of Office (in Subsidiaries)	5,000	
34,590			44,884
113,760	Interest Paid (see Note 9)		122,283
16,096	Auditors' Remuneration		16,084
635,336			662,885
328,260	Balance, carried down		480,893
£963,596			£1,143,778
	United Kingdom Taxation Based on Current Profits:		
121,300	Corporation Tax at 42½ per cent	177,325	
46,178	Adjustments in respect of previous years	277	
75,122			177,602
4,304	Loss on Sale of Investment in Former Subsidiary		—
	Dividends, gross:		
76,402	Interim of 6.5 per cent	76,402	
99,911	Proposed Final of 11.5 per cent	135,173	
176,313			211,575
	Balance, carried forward:		
352,475	Parent Company	326,276	
356,780	Subsidiary Companies	474,695	
709,255			800,971
£964,994			£1,190,148

Year ended 31st March, 1967 £		Year ended 31st March, 1968 £	Year ended 31st March, 1968 £
947,560	Profit on Trading		1,076,393
16,036	Depreciation Adjustment on Investment Grants		61,237
—	Profit on Disposal of Fixed Assets		6,148
£963,596			£1,143,778
	Balance brought forward:		
418,543	Parent Company	352,475	
218,191	Subsidiary Companies	356,780	
636,734			709,255
328,260	Balance brought down		480,893
£964,994			£1,190,148

AIRFIX INDUSTRIES AND SUBSIDIARY COMPANIES

NOTES AND ADDITIONAL INFORMATION ON THE ACCOUNTS FOR THE YEAR ENDED 31st MARCH, 1968

1. **Valuations of Fixed Assets.** The valuations of the Freehold Land and Buildings of the Group, with the exception of certain properties, were made by Messrs. Hillier, Parker, May & Rowden on 24th February, 1965, and were adopted by the Board of Directors. The valuations of the Leasehold Land and Buildings at Wandsworth were made by Messrs. Hillier, Parker, May & Rowden on 3rd September, 1957, and were adopted by the Board of Directors.

2. **Capital Commitments.** £250,000 (31/3/67—£85,000).

3. **Guarantee for Subsidiaries.** The Parent Company has guaranteed an amount of £582,342 owing by Subsidiaries.

4. **Stock and Work-in-Progress.** Stock and Work-in-Progress is included at the lower of cost and net realisable value, and cost, where appropriate, includes a proportion of overhead expenses.

5. **Premiums on Acquisition of Shares**

	£
Balance as at 1st April, 1967	476,136
Additional Charges arising during year	294
Balance as at 31st March, 1968	£476,430

6. **Mortgages.** These are secured on certain of the Freehold and Leasehold Land and Buildings.

7. **Investment Grants Reserve**

	£
Balance as at 1st April, 1967	71,697
Total Investment Grants Receivable for period ended 31st March, 1968	122,160
	193,857
Less: Depreciation Adjustment credited to Profit and Loss Account	61,237
Balance as at 31st March, 1968	£132,620

Credit to Profit and Loss Account is being taken for these grants spread over the estimated depreciated life of the assets.

8. **Fixed Assets and Moulds**

	Freehold Land £	*Leasehold Over 50 years* £	*Leasehold Under 50 years* £	*Plant and Equipment* £	*Moulds* £	*Total* £
Cost 1st April, 1967	551,326	5,665	42,177	1,532,917	1,938,266	4,070,351
Prior Valuation	692,000	—	37,000	—	—	729,000
Additions	57,631	—	107	179,304	329,316	566,358
	1,300,957	5,665	79,284	1,712,221	2,267,582	5,365,709
Disposals	—	—	—	164,023	19,844	183,867
Balance: Cost	608,957	5,665	42,284	1,548,198	2,247,738	4,452,842
Valuation	692,000	—	37,000	—	—	729,000
31st March, 1968	£1,300,957	£5,665	£79,284	£1,548,198	£2,247,738	£5,181,842
Depreciation 1st April, 1967	—	376	35,692	726,447	1,537,996	2,300,511
Year charge	—	69	6,482	190,549	281,538	478,638
Adjustment *re* Disposals	—	—	—	(121,538)	(6,318)	(127,856)
Aggregate Depreciation	—	£445	£42,174	£795,458	£1,813,216	£2,651,293
Written down value **31st March, 1968**	£1,300,957	£5,220	£37,110	£752,740	£434,522	£2,530,549

9. **Interest Paid**

	1968 £	*1967* £
On bank overdrafts and finance facilities	62,637	*69,677*
On Loans—repayable within 5 years	4,430	—
after more than 5 years	55,216	*44,083*
	£122,283	*£113,760*

10. **Directors' Emoluments** including Pensions

	1968	1967
Fees	500	*500*
Other	39,384	*26,090*
	£39,884	*£26,590*
Compensation to Former Director of Subsidiary	£5,000	*£8,000*
Emoluments excluding pension contributions were paid to Directors as follows:		
Not more than £2,500	1	*1*
Exceeding £2,500 but not more than £5,000	1	*1*
Exceeding £5,000 „ „ „ „ £7,500	0	*1*
Exceeding £7,500 „ „ „ „ £10,000	1	*1*
Exceeding £10,000 „ „ „ „ £12,500	2	*1*
Directors' remuneration shown above includes—Chairman	£11,500	*£5,960*
11. **Auditors' Remuneration** for the Group	£16,084	*£16,096*

CITY NOTES

BARRING take-over moves, there is little action in the equity sections of the stock-market at present. In index terms the equity market has edged sideways, albeit with a slight upwards inclination, for three and a half months now. *The Financial Times* Index is a mere ten points above the original 1968 peak reached last May and that is not exactly an impressive performance for a market which is generally supposed to be in a 'bull' phase.

Individual shares have performed far better than the index and the investment search now is for special situations – the overlooked secondary share, the take-over possibility, the recovery prospect. This is the new phase in the equity market – the specialist phase – and it is basically one of the reasons why many stockbroking firms are careful about predictions of a further blanket rise in share prices as a whole.

One of the signs of a near-peak in the stock-markets is a turn from reasons for buying shares to excuses for buying. Some leading shares may be considered to be at the excuse rather than the reason buying level now. This inevitably means that the search for special situations becomes intensified.

But while take-over battles continue to rage and while mergers continue to be amicably arranged there will be no shortage of situations. The scope for finding 'growth' is still there but it is becoming increasingly difficult to find.

* * * *

THIS week-end the Central Bankers meet in Basle to discuss the progress made by the British Treasury in persuading sterling area Governments to participate in the sterling balances backing arrangement put forward at the Basle meeting in July. Indications are that Treasury teams which have been selling the scheme for the past two months have been successful, although it is understood that some Governments have not exactly leapt to accept the scheme. But if the scheme, as expected, goes through then at least there will be a rope rather than a slender thread to the Damocles sword of sterling balances that has been suspended over sterling for so long.

* * * *

THE Bank of England's action in congratulating the banks on getting their lending down to the level ordered last May, and at the same time making it clear that the pressure on credit for anything other than priority lending must remain strong, was more a public relations exercise than anything else. The banks stood in need of some official reinforcement and the Bank of England provided it. At least bank managers will be able to quote the Governor of the Bank of England all over again when they have to turn away what, under even normal credit squeeze circumstances, would have been considered legitimate requests for bank money.

* * * *

THE Charterhouse Group's autumn issue of *Business Forecast* sees 'a good chance' of Bank rate down to 6½ per cent by the end of the year. Further reductions, however, 'will depend on the position in the United States and the speed at which the British balance of payments improves'. It is suggested that as long as suspicion attaches to the future of sterling, UK interest rates can do no more than move in line with those in the United States. Charterhouse sees more scope for reduction in short-term, rather than long-term, rates.

It is undoubtedly a fact that the establishment of 8 per cent as a new 'crisis' Bank rate last November has been written into the UK interest rate structure. Bank rate at 5 per cent would probably represent cheap money now, although it is extremely difficult to see a move towards economic conditions which would even permit a reduction in the rate to that level.

RATES AND PRICES

Closing prices, Tuesday, September 3rd, 1968

Tax Reserve Certificates: (28.8.68) Companies 4⅝%; 3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966	7%	Oct. 19, 1967	6%
Jan. 26, 1967	6½%	Nov. 9, 1967	6½%
Mar. 16, 1967	6%	Nov. 18, 1967	8%
May 4, 1967	5½%	Mar. 21, 1968	7½%

Treasury Bills

June 28	£7	4*s*	10·04*d*%	Aug. 2	£7	0*s*	4·48*d*%
July 5	£7	4*s*	9·73*d*%	Aug. 9	£6	18*s*	6·27*d*%
July 12	£7	3*s*	5·60*d*%	Aug. 16	£6	18*s*	1·79*d*%
July 19	£7	2*s*	5·25*d*%	Aug. 23	£6	19*s*	0·42*d*%
July 26	£7	1*s*	2·22*d*%	Aug. 30	£6	18*s*	10·73*d*%

Money Rates

Day to day	5⅞–7%	*Bank Bills*	
7 days	5¾–7%	2 months	7⅜–7 7/16%
Fine Trade Bills		3 months	7⅜–7 7/16%
3 months	8½–9%	4 months	7⅜–7 7/16%
4 months	8½–9¼%	6 months	7⅜–7 7/16%
6 months	8¾–9½%		

Foreign Exchanges

New York	2·38 7/16	Frankfurt	9·48 19/32
Montreal	2·55¾	Milan	1484¾
Amsterdam	8·65 13/16	Oslo	17·03¼
Brussels	119·72	Paris	11·85 11/16
Copenhagen	17·92¼	Zürich	10·26 13/32

Gilt-edged

Consols 4%	52 13/16	Funding 6% 1993	81
Consols 2½%	33 5/16xd	Savings 3% 60–70	91 5/16
Conversion 3½%	46 1/16	Savings 3% 65–75	75¼
Conversion 5% 1971	93	Treasury 6½% 1976	95 7/16
Conversion 5¼% 1974	90⅜	Treasury 3½% 77–80	72⅝
Conversion 6% 1972	94 13/16	Treasury 3½% 79–81	69
Funding 3½% 99–04	52½	Treasury 5% 86–89	74½
Funding 4% 60–90	96	Treasury 5½% 08–12	73⅜
Funding 5¼% 78–80	82⅞	Treasury 2½%	32 13/16
Funding 5½% 82–84	81½	Victory 4%	97
Funding 5¾% 87–91	78⅞xd	War Loan 3½%	47 1/16

Correspondence

Integration of the Profession

SIR, – It was gratifying to see some reaction to Mr Greener's letter even though Mr Otter (August 24th issue) disagreed with his views. In my own opinion the letter from Mr Greener which you published on August 10th, contains the most pertinent comment on the proposals that I have yet seen or heard, and warrants as much study and consideration as the published scheme.

Increasing complexity in the future will require more specialization not only from individuals but from the institutes and societies into which they group themselves.

In a lighter vein I cannot resist the temptation of quoting Mr Otter:

> 'If and when the scheme is effected, the position will be little different from that faced by present day chartered accountants',

in conjunction with a better-known quotation:

> 'Now, here, you see, it takes all the running you can do to keep in the same place.'

Yours faithfully,
J. H. GODFREY.

Exeter.

SIR, – In his letter in your August 24th issue, Mr Otter essays to counter certain of the arguments that I put forward (August 10th issue). I do not find his letter particularly convincing but it definitely deserves some comment. It reads rather like a political oration that does nothing but reiterate and approve a policy already decided, and its style is of the kind that drugs the reader into acquiescence rather than convinces him by logical argument.

To be more specific, it does not seem to me to be particularly relevant to quote the chaos in other professions as a precedent for creating chaos in ours. It may also be true that in the nineteenth century, the man on the Clapham coach could not distinguish between a solicitor, an attorney, and a proctor. The parallel is somewhat obscure. Where one profession can be distinguished from another, he is likely to be the more confused if they are all to be called by the same name. It is, or would be in the present era, up to the professions concerned or the public relations departments to make differentials of abilities apparent to the public.

Mr Otter states that he began to specialize late in his training. This seems to indicate that he may prefer to specialize before taking a final examination that is to have a greater content of general knowledge and be a greater test of ability than those previously held. Mr Otter, in fact, seems to agree with me. Specialization should begin during articles and not after. This is apparent from the second paragraph of his letter and also from the fourth where he approves of the modified streaming which the Institute proposes to introduce. It is difficult to reconcile this with his commendation of the Institute providing the J.Dip.M.A. and the C.M.I., both representing after-qualification specialization, and his further approval of the plans for introducing specialized fellowships.

It does seem to me that the term 'chartered accountant' is out of date and becoming increasingly meaningless. There is no point in debasing it further by applying it over a wider field. Surely it is common sense to look for more meaningful terms. Provided the public are given adequate protection, it seems more sensible to adopt phrases such as company accountant, taxation accountant, auditor, etc.

There is a story of a husband who claimed that his wife never gave him a surprise for his dinner, She therefore took the labels off all the tins and proceeded to serve them at random. The Institute's solution to their problem seems to follow very similar lines, except that in addition to removing the old labels, they propose to stick a standard label on each tin.

Yours faithfully,
Barry, Glam. MICHAEL GREENER, B.A., F.C.A.

The Case for Abolishing Surtax

SIR, – The editorial 'Taxes Ahead' in your August 24th issue did much less than justice to the case for abolishing surtax altogether. You published an article of mine last year on the subject ('Why not abolish progressive taxes?' – November 25th issue), and I will not try to repeat its details. But may I summarize again the reasons which lead me to think that abolishing surtax is the single most urgently-needed reform to the whole tax system?

(1) Surtax raises at most 1½ per cent of total gross tax revenue; and its net yield after all costs is probably actually negative. So abolishing surtax has nothing to do with total 'public' (i.e. Government) expenditure.

(2) Hardly anybody understands the difference between progressive and proportional taxation, so there is no question of a public 'demand' for surtax. Even if there were, I think it wrong in principle for a majority to force a minority to pay especially heavy rates of tax.

(3) Surtax unfairly penalizes married couples and those whose income arises unevenly.

(4) Surtax probably has a rather serious disincentive effect, and on the very people – those who can earn most – whose efforts are most valuable. The seriousness of the disincentive must obviously remain a matter of opinion, since one cannot point to all the wealth that has *not* been created as a result of surtax (though the 'brain drain' indicates that it may be substantial).

(5) Surtax causes grotesque economic distortions, and its real rates are continually increased by currency debasement.

(6) Surtax greatly complicates the whole tax system:

(*a*) by the complexity of regulations needing to allocate income accurately, both between individuals and between one year and another;

(*b*) by the natural tendency of its high rates to lead to tax avoidance and evasion, which then causes modern Governments to complicate the regulations further by incomprehensible counter-avoidance legislation; and

(*c*) by the severe complication it causes to the system of company taxation, which could be completely ended by a simple proportional rate of tax on all income.

If accountants really want simpler taxes, abolishing surtax would be a major step in that direction. Will someone please explain the compelling reason(s) for keeping surtax?

Yours faithfully,

London W1. D. R. MYDDLETON.

Data Processing Services for Incomplete Records

SIR, – I think one could be excused for thinking that the above article in *The Accountant* of August 10th might have been little more than an adaptation of information supplied by the National Cash Register Co Ltd. I expected to see an article or correspondence in the following weeks' editions which would make up for the complete absence of any critical appraisal of this and other similar schemes. I was also a little irritated that a substantial proportion of the practising side of the profession should have a potentially interesting article featured under the heading 'For the Small Practitioner' – when, in point of fact, many medium-sized and substantial firms have proportions of their practices engaged in such work.

I think some of the disadvantages of such schemes would be:

(1) They are much more effective when the client keeps the minimum of records. Generally, I think, this is an undesirable trend and that clients should be persuaded, wherever possible, to keep proper and adequate records and especially if they are expanding (credit control etc). When proper records are kept such data processing is usually considerably less relevant, if at all.

(2) The manual method usually necessitates analysing on analysis paper the bank and cash payments on which considerable additional information can be written as desired. As indicated in the article, one does not, of course, escape the mental process of analysis by the use of the data processing system. It follows that it would not be reasonable to assume that the entry on to the analysis paper should take any different level of staff capability or that it should be any slower than using an add-listing machine and code number. One is merely saved the usually limited amount of effort required in adding up the columns of the analysis paper and in return losing a great deal of the flexibility which is usually so necessary in preparing final accounts.

(3) As the illustration in the article showed, one also gets from the data processing centre a proved summary under each account heading for the period. Accountants would naturally recognize this as being a form of horizontal trial balance which many probably use already in slightly different forms with or without a private ledger to which the cash and bank transactions may have been already posted. This horizontal trial balance may be a little tedious to write out and cast but in most cases would only form a very small proportion of the time taken for the whole job. Also one has to prepare add-listing data for schedules of creditors, debtors, journal entries, and transfers – most of which one would surely have had to do manually already.

(4) The complete preparation of incomplete records is extremely good training for articled clerks and others. Although nobody would keep an archaic system for this purpose alone, one must be even more certain that the proposed data processing is a good development.

Data processing is becoming a very competitive field and I have considered various schemes on several occasions. Such schemes always seem to be very well thought out and are probably helpful to some practitioners. Possibly we will all use them eventually, but I am still very doubtful of many of the alleged advantages in the professional accountant's office where flexibility of approach is so important, both with one's working papers and one's advice to clients as to how he should keep his books and records. We should surely never have a vested interest in clients keeping records which are less sophisticated than they need be to run their businesses adequately. Furthermore, many of the savings in time etc. claimed have little to do with such mechanization but result from changes in procedure which could be effected without mechanization.

Yours faithfully,

Norwich. M. H. A. BOLDERO, A.C.A.

Internal Audit

SIR, – Reading 'This is My Life' is one of my pleasures, but I cannot let the Industrious Accountant's 'managing director' get away with his comment about reducing external auditors' fees by 'rationalizing routine work with our internal audit section' as 'reported' in your issue of August 24th.

This is the pre-war image of internal audit which, happily, is dying fast. I would like to invite 'managing director' to attend one of the meetings of the London Chapter of the Institute of Internal Auditors (bringing his internal auditor with him) when he will discover that internal auditors are no longer routine clerks but employees of high potential appraising the whole of an organization's activities who are, today, putting their fingers on trouble spots and, in the process, preparing themselves for tomorrow when they may be sitting in 'managing director's' chair.

Yours faithfully,

PAUL C. ELLIOTT, F.C.A.,

President, London Chapter,

INSTITUTE OF INTERNAL AUDITORS.

London SE1.

The Move to Stop *Chartac*

Institute's Requisitioned Meeting

MR H. T. NICHOLSON and his 133 supporters have won the first round in their move to stop *Chartac*. The special meeting of The Institute of Chartered Accountants in England and Wales which they requisitioned was held at Church House, Westminster, on Thursday of last week. The President, Mr Stanley Dixon, M.A., F.C.A., was in the chair and about 150 members attended.

A resolution to rescind the one passed at the annual meeting in May instructing the Council to issue a free journal to all members was proposed by Mr Nicholson and seconded by Mr Halmer Hudson, F.C.A., who had interrupted his holiday in Penzance to do so. The resolution was carried on a show of hands by 114 votes to 34.

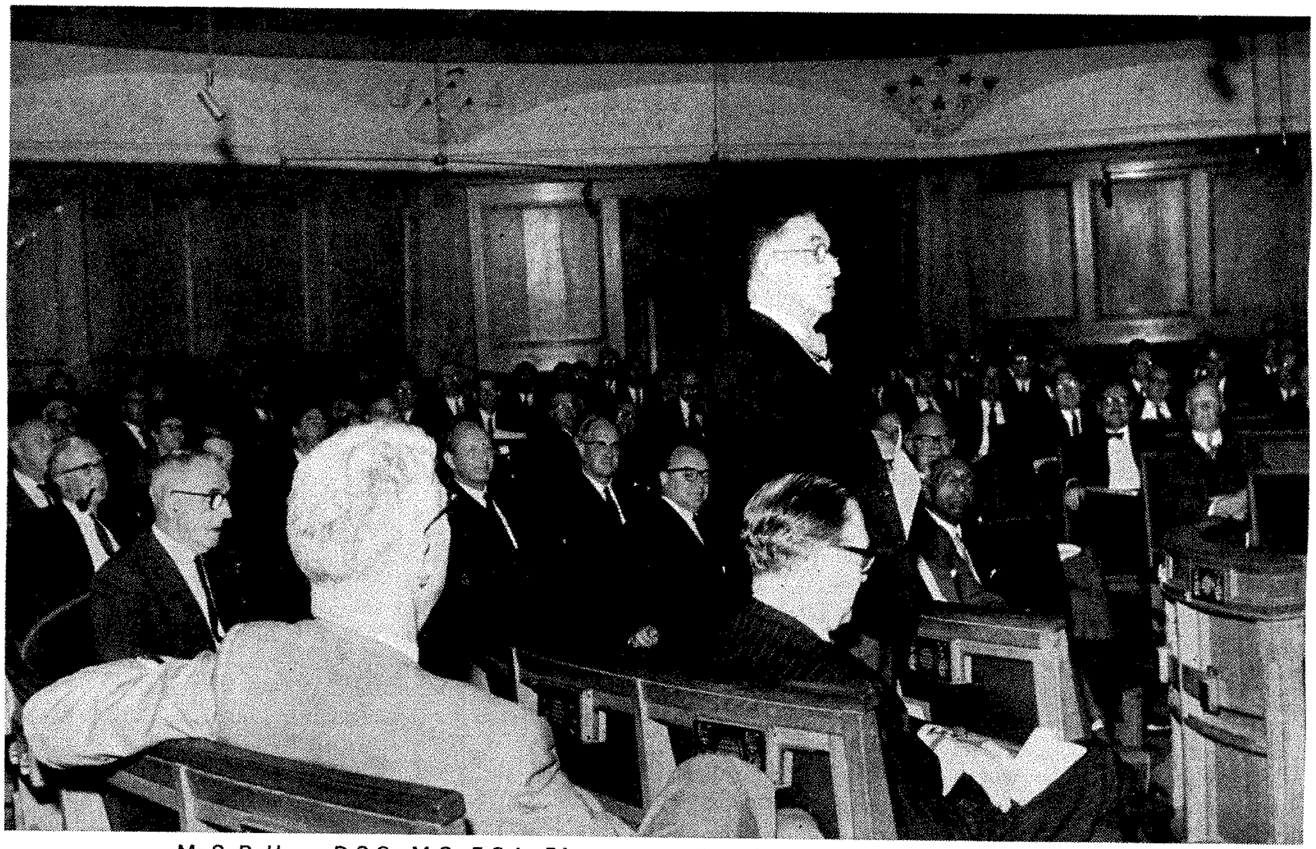
Announcing the result the President said that a transcript of the proceedings of the meeting would be circulated to all members in approximately two weeks' time, with proxy forms. This would give members an opportunity of studying the debate before voting on the poll which is to be taken on October 3rd at 10.30 a.m. He hoped all members of the Institute would vote on the poll.

Moving the resolution, Mr Nicholson said he wished to make it clear that the action taken to convene the meeting was without the prior knowledge of the Council or Secretariat. The purpose of himself and his supporters was to give members the opportunity to think again on the matter. The Institute's journal *Accountancy*, and also *The Accountant* were, he said, available to all members who wished to keep abreast of Institute matters and professional affairs in general. It was hard to see, he went on, how members could get the same benefits from those journals if the free issue of the proposed *Chartac* was to be made.

It was impossible, moreover, to issue a 'free' journal. Members might not have to pay directly, but in the long run the cost involved could only be met by increased subscriptions. At the special meeting on May 22nd, proposals to increase subscriptions were defeated, so even without a 'free' journal the Institute was going to be short of money. It was plain that important Institute activities would have to be curtailed as a result of the failure to increase subscriptions. The cost of a free journal, he said, would still further curtail useful and important activities.

The votes cast for the resolution for a free journal at the annual meeting, said Mr Nicholson, amounted to about 14 per cent of the total membership; he thought all

The President opens the meeting. Seated, *left to right*, are: Mr C. Evan-Jones, M.B.E., Secretary of the Institute, Mr C. Croxton-Smith, M.A., LL.B., F.C.A., Vice-President, and Mr R. McNeil, F.C.A., a Past President and a member of the Council.



Mr S. R. Hogg, D.S.O., M.C., F.C.A., 54 years a member of the Institute, speaking at the meeting.

members should be given another opportunity to reconsider the whole matter before any large annual expenditure was incurred. He also thought, finally, that it was a mistake for members to 'instruct' the Council what to do in detail. If 'instructions' such as those about a free journal became habit, it would be hard to find members of the right quality to serve on the Council. He hoped that all members would vote on the resolution, either in person or by proxy on the poll.

Seconding the resolution, Mr Hudson asserted that a free journal would threaten the future of *Accountancy*; it was doubtful if in the long run *Accountancy* could survive the competition, he said. Further, a free journal was bound to have a low priority in the call on Institute funds, and gradually it would deteriorate year by year. A free journal did not have the commercial and journalistic outlook to increase circulation (beyond the Institute membership) and profit.

He, too, felt that the original voting did not represent the declared wishes of the Institute. Of a vote of 25 per cent of the members, the 12·9 per cent voting in favour of the resolution at the annual meeting just outweighed the 12·1 per cent voting against it. This time everyone must speak with their vote.

A lively debate followed, from which it was apparent that feelings ran high on the subject. Several members took Mr Nicholson and his co-requisitionists to task for what they regarded as a misuse of bye-law 94 to convene the meeting.

Leading for the 'opposition', Mr P. Abrahams of London said it was a 'mischievous motion'. Its intention was clearly to undermine the authority of members of the Institute in seeking to rescind a resolution recently passed by a majority of members voting on the poll. He moved an amendment to the resolution before the meeting, but the President said this would obliterate the original motion entirely and was therefore out of order.

Mr S. R. Hogg supported the resolution; he did not approve of the Council being 'instructed' by members.

Mr Kenneth Wright spoke at some length on the issues as the Council saw them. Constitutionally, he said, the Council were the elected representatives of the members and on matters of principle the Council were willingly subject to members' guidance and control. But he was worried where the practical consequences of mandatory resolutions like Mr Couldery's at the annual meeting might lead.

He spoke of the financial aspect of producing a free journal and of its possible effect on *Accountancy*. It would, he said, be very difficult for two monthly journals to be successful and it could well be that they would be mutually destructive and would probably both be failures. But, he said finally, the Council's support of the resolution did not imply that they did not believe in the need for good communications. If the resolution was passed, they would consider improving or modifying the Newsletter, and publishing it at a frequency which would not damage *Accountancy*.

Mr Couldery saw the influence of the Council behind the meeting. His researches had shown that of the 50 Council members in practice, 31 had partners or employees among the requisitionists, or had common partners with them. Members must draw their own conclusions, he said, but would they expect to find this position in a random sample of 134 out of 45,000 members? His inference was clear.

He pointed out that the subscriptions to the Scottish Institute were inclusive of their journal. Why was it, he asked, that an organization that was only 15 per cent of the size of their own managed on the same rates to send out a free journal when the Council said 'we cannot afford it' or 'we do not want it'?

He disputed the costs of a free journal which had been suggested, and presented his own figures. He recalled the statement made that 'controlled' circulation journals were unable to command advertisement rates as high as those sold on the open market, and pointed out that the full-page rate for *Chartac* had been quoted in a trade publication at nearly double that of *Accountancy*.

He finally sought to move an amendment to the resolution but this, too, the President rejected on the same grounds as the previous one.

Mr Warlow (London) supported the resolution, as did Mr Caborn Smith who suggested that Mr Couldery might have a better chance of 'gingering up' the Council – which in some respects he did not deny was needed – if he tried to secure nomination and election to the Council. Mr Piggott (Ipswich) suggested the idea of *Chartac* should be dropped and that *Accountancy* should be issued free to members.

Mr Michael Natham (London) was 'horrified' by the resolution passed at the annual meeting. They had an excellent official magazine in *Accountancy* and he saw no reason why it should be free. Mr R. Barlow, of Chelmsford, wanted one magazine instead of three or four, but he did not mind paying for it.

Mr M. Barradell (Pinner) had nothing to say about the merits or demerits of the original magazine motion, but he was concerned that the present resolution might create a dangerous precedent for the future. They would never know with certainty, he said, whether any matter was finally settled. He asked Mr Nicholson to withdraw his resolution, a request in which he was supported by Mr Lynn, of London, but opposed by Mr R. F. Emmerson, of Bath.

Mr Birkenshaw Smith objected to the Council being given mandatory instructions by a minority of the membership. The Institute's constitution should be amended to ensure that no such directions could be made unless supported by not less than 50 per cent of the entire membership of the Institute. He supported the resolution.

Mr R. McNeil, chairman of a special committee appointed to advise the Council on matters arising from the meetings on May 22nd, dealt with various points raised in the debate up to that point. He was 'amazed' at Mr Couldery's suggestion that there was 'some sort of liaison' between members of the Council and the requisitionists. Those who signed the requisition were approached by Mr Nicholson at the Oxford Summer Course. It was as simple as that; there was no secret, no connivance.

So the debate went on throughout the afternoon. Some extolling the virtues of *Accountancy* and warning of the danger they saw for it; others criticizing the Council on their 'lack of communication' with members and seeing a remedy for this in a free journal. Mr Nicholson declined to withdraw his resolution; he couldn't anyway, he said, without consulting his colleagues and they were not all present.

The full story may be read by members in the official transcript to be sent out next week. All that can be said at the moment is that Mr Nicholson has scored a try; it remains to be seen on October 3rd whether or not the try will be converted.

Reviews

Manual of Office Administration

by B. H. Walley

Business Publications Ltd, London. 70*s*.

This book on the administration and management of the modern office deals with its subject-matter under four main headings – office environment, control, improving office efficiency and office equipment. The author has approached his subject generally in a practical manner, though he has not failed to outline recent theoretical aspects of office management, where appropriate.

Topics covered include office fatigue and poor morale – often associated with a computer installation – together with the latest developments in office layout, seating and working conditions, organization, work measurement and incentives, job study, cost control and other aspects of office efficiency. A chapter on network analysis and mathematics in the office give an introduction to these topics not often found in a textbook on office management.

The book can be recommended to all managers concerned with office organization and method, and for those who wish to pursue a topic further there is a useful 'Further reading' list at the end of each chapter.

Pension Schemes and Retirement Benefits

Third edition, by Gordon A. Hosking, F.I.A.

Sweet & Maxwell Ltd, London. 90*s*.

The first edition of this book appeared in 1956 and the second in 1960. In 1956 about eight million employees were covered by pension schemes – it may well be over twelve million by now – and there are two million people already drawing pensions from these schemes.

As the author says, pension planning has become an important part of national saving. Contributions are approaching £1,000 million per annum. Few people are unaffected and few have more than a vague understanding of the subject in general and much less the complex tax provisions.

This book is said to be directed to financial directors company secretaries and pension scheme administrators, rather than solicitors and actuaries. However, it contains a very full statement of the law and practice, as well as reproducing most of the relevant legislation. The text is lucid and admirably arranged. Unlike so many modern technical books, this one is of moderate size and easily handled.

If one might venture a suggestion, it is that among the matter reproduced verbatim there should be included the letters sent from time to time for general edification by the Controller of Superannuation Funds at the Inland Revenue. One may not like a situation where so much is left to the discretion of Revenue officials, but while it is with us the advantages of knowing precisely how that discretion is exercised are obvious.

The Betterment Levy

by PERCY F. HUGHES, F.C.I.S., K. R. TINGLEY, F.A.C.C.A., and K. BUCKLEY EDWARDS, Barrister-at-law.

Taxation Publishing Co Ltd, London. 92*s* 6*d*.

Out of a not inconsiderable library on the betterment levy, this is the book to which the reviewer turns most frequently for help in the baffling problems of betterment levy, i.e. something which the Government insists is not a tax, although nobody can explain where the difference lies. Whatever that difference (if any) may be, there is no doubt that the team who produced this book have turned to very good account their well-known expertise in the field of exposition of tax legislation.

Of course no one has much material experience of how the Land Commission Act 1967 works in practice, because the actual results produced by the Commission are pitifully small. One obvious and direct result of the confusion and doubt produced by the new Act was a firm determination by potential vendors of land not to sell at all, except at a price which was grossed-up to cover the potential levy.

However, the pressure on land is so great that transactions are bound to be stepped up after the initial inhibitions produced by the Act have abated. Moreover, many landowners want to be told how they stand, even though they have no immediate intention of selling or developing. For this purpose the book is invaluable. Because of the absence of practical experience, much of the text is of necessity a paraphrase of the legislative provisions, but the paraphrasing is very helpful.

Particularly useful is the reproduction in the book not only of the relevant statutes but also of statutory instruments made under the Act; the whole of the 123 pages of Appendix I is occupied by the Land Commission Act 1967. It would have been helpful here if the page headings, instead of saying merely 'Appendix I', had shown on one side the title of the Act and on the other side the particular section or Schedule which was being reproduced. Similar criticism applies to Appendix IV, but these are minor points of mechanical presentation.

Cost Accounting: Analysis and Control

Revised edition by GORDON SHILLINGLAW, PH.D.

Richard D. Irwin Inc., Homewood, Illinois. $9·50.

This companion volume to *Cost Accounting: Principles and Practice*, approaches cost accounting from the viewpoint of the managerial consumer of accounting information. The inherent judgement on accounting concepts and procedures is made by the criterion of how well they are likely to meet the needs of management. So often in the past cost accounting reference books and textbooks seem to have regarded the subject as a collection of aesthetically satisfying exercises for the cost accountant, who by implication has missed his true vocation as a theoretical mathematician. Here the emphasis is placed where it should be – on what managers want, or better still, *need* to know and how best to satisfy that need.

It is apparently as true of the USA as elsewhere, that the majority of accountants (and even of cost or management accountants) have an insufficiently deep appreciation of the purpose and use-potential of the information they supply. With the aid of books such as this, both accountants and executives may at last come together in an appreciation of the area in which their fields interact. As a result of his approach, Mr Shillinglaw has produced an eminently readable and informative volume in which the minimal formulae, diagrams and examples proceed naturally for the mind and clearly for the eye.

The exercises and problems are appropriate and informative in themselves, while the discussion questions should prove equally suitable for study groups at student or works level.

Hemispheres North and South

by DAVID HOROWITZ

Johns Hopkins Press, Baltimore; Oxford University Press, London. 40*s*.

The theme of this short book by the Governor of the Bank of Israel is the economic disparity between nations. He has been foremost in arguing the need for more generous assistance from the developed Western nations for the under-developed. Despite the substantial aid already given, the fact remains that the disparity in living standards between the 'haves' and 'have-nots' is growing rather than decreasing. The basic theme is the need for massive capital aid to diversify and industrialize the developing world, coupled with unilateral free trade and a willingness to see the developing nations expand their traditional industries, which cannot hope to thrive in the face of competition from their longer established counterparts in the advanced economies.

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Notes and Notices

PROPOSED INTEGRATION SCHEME

Next Week's Meetings

Council members of The Institute of Municipal Treasurers and Accountants will be present at the following local meetings to be held next week, when the proposals for the integration scheme will be discussed:

Wednesday:

South Wales Associates, Cardiff, 2.30 p.m.

Wessex Associates, Andover, 2.15 p.m.

PROFESSIONAL NOTICES

Messrs Annan Impey Morrish of Oldbourne Hall, 43 Shoe Lane, London EC4, announce that they have admitted to partnership Mr G. C. Child, B.SC.(ECON.), and Mr R. J. Ellison, A.C.A., both of whom have been on the staff of the firm for a number of years.

Messrs Barton Mayhew & Turquand Youngs announce that Mr Robert C. Badley, F.C.A., who has for some years been resident manager of their Milan office, has been admitted to partnership.

Messrs T. & H. P. Bee, Chartered Accountants, announce that Mr E. W. Wells, F.C.A., retired from the partnership on August 31st, 1968. He will remain available in a consultative capacity. Mr R. Hall, F.C.A., of the Preston and Manchester firms, and Mr W. J. Shadbolt, A.C.A., of the Fleetwood and Blackpool firms, became general partners in all the firms on the same date.

Messrs H. P. Gould & Son, Chartered Accountants, of Norwich, announce that Mr M. L. Page, F.C.A., will retire from the partnership on September 30th, 1968, to take up a commercial appointment.

Messrs Pannell Fitzpatrick & Co, Chartered Accountants, have moved their Dominica office to Castle Street, Roseau, Dominica, West Indies.

Mr P. G. Sheldon, A.C.A., A.T.I.I., practising under the style of Sheldon Waterman & Co, Chartered Accountants, announces that he discontinued the working arrangement with Mr A. Waterman, F.A.C.C.A., on August 31st, 1968, and is now practising as P. G. Sheldon & Co, Chartered Accountants, at 8 Queen Anne Street, London W1.

APPOINTMENTS

Mr W. A. E. Head, A.C.W.A., has been appointed managing director of Kenning Car Mart Ltd.

Mr W. A. E. Head

Mr T. Weatherby

Mr T. Weatherby, F.C.W.A., J.DIP.M.A., A.T.I.I., A.M.B.I.M., has been appointed group financial director of English Calico Ltd, and Mr E. B. White, A.C.A., chief accountant of Calico Printers' Association Ltd, has been appointed deputy to Mr R. C. Thompson, F.C.A., group accountant of English Calico.

DATAFAIR 69

Chartered Accountant nominated Controller

Mr R. L. Barrington, A.C.A., a partner in Peat, Marwick, Mitchell & Co, Chartered Accountants, of Manchester, and chairman of The British Computer Society's Branches Board, has been nominated controller of Datafair 69, responsible for overall co-ordination of the conference which, as referred to in our issue of last week, is to be held in Manchester next year from August 25th to 29th.

COMPANY TAX RESERVE CERTIFICATES

As noted under 'Rates and Prices' in our issue of last week, the rate of interest on company Tax Reserve Certificates subscribed on or after August 28th, is 4⅝ per cent per annum on certificates tendered in payment of tax. The previous rate was 4⅜ per cent and this has been increased to bring it into line with the yields on comparable securities. The rate on certificates surrendered for repayment in cash will remain at 3 per cent per annum. The certificates are, of course, tax free.

The rate of interest on personal Tax Reserve Certificates will remain at 4 per cent per annum. These certificates are also tax free.

The rates of interest on all company and personal Tax Reserve Certificates subscribed on or before August 27th, will remain unchanged.

POST OFFICE SAVINGS BANK TO PAY 6½ PER CENT

For the second time in nine months the interest rate on Post Office Savings Bank investment accounts is to be raised – from 6 per cent to 6½ per cent per annum as from October 1st.

Investment accounts were introduced in June 1966, to supplement the ordinary 2½ per cent accounts of the Savings Bank by providing facilities for a higher interest rate on longer term savings. The interest rate then offered was 5½ per cent and this rate was held during the initial period while

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Last January, the rate was raised to 6 per cent and it is stated that the success of the scheme has made it possible for this further rise in the interest rate.

INLAND REVENUE'S NEW COMPUTER CENTRES

Proposals for a further four Schedule E computer centres were announced by the Inland Revenue last week. The centres will serve the Eastern counties (from Tyneside); the North-East (from Shipley, near Bradford); outer London (from Edinburgh) and Southern counties (from the Southampton-Portsmouth area).

This is a further stage in the programme under which the Inland Revenue will, over the next twelve years or so, transfer to nine computer centres much of the PAYE work at present carried on by 24,000 staff in more than 720 local tax offices. The first centre, serving Scotland, is now coming into operation at East Kilbride, near Glasgow. Sites for three more have already been acquired at Bootle (for the North-West), Cardiff (for Wales and Monmouth) and Manchester (for the Inner London area). The location of the ninth centre (to serve the Midlands) has still be to decided.

The reorganization will provide PAYE taxpayers with a quicker and more accurate service at an estimated saving of over 5,000 staff when all the centres are operational.

Facilities for taxpayers to discuss their tax affairs locally will be preserved. Those who wish to talk over tax problems in preference to settling them by correspondence will still be able to call either at a local tax office or, in some places, at special inquiry offices set up for the purpose.

CHARTERED ACCOUNTANTS' BENEVOLENT ASSOCIATION

At a recent meeting of the Management Committee of the Chartered Accountants' Benevolent Association, at which the chair was taken by the President, Mr R. L. Eke, F.C.A., and eight members were present, 15 new applications were considered. Grants were made in 12 cases; one application was refused and one deferred; a nomination was granted for a place in one of Crossways Trust's homes for old people.

One application was from a young member with two children who, owing to illness, can only work on a restricted basis in his home. A grant was made which, with State insurance benefit and his small earnings from professional work, will cover the family's future expenditure on a reasonable basis.

Twenty-three applications for the renewal of grants were considered. Further grants were made in all cases.

Changes in circumstances

Fourteen cases were reported in which circumstances had recently changed. Donations were approved in several instances.

Special Fund

One new application was considered and a small grant made.

THE ACCOUNTANTS' CHRISTIAN FELLOWSHIP

The objects of the Accountants' Christian Fellowship are to promote fellowship among Christians preparing for and engaged in accountancy and thus to seek to extend the Kingdom of God. Membership is open to all who are engaged in or studying accountancy in all its fields. Membership forms are available from the secretary, Mr R. J. Carter, B.COM., F.C.A., 6 Highfield Drive, West Wickham, Kent, telephone 01–777 4716.

The programme for the 1968–69 session will open with a students' special meeting when there will be a discussion on 'Violence or pacifism', led by Mr Peter Bessell, M.P., on October 15th, at 6.15 p.m. at the Royal Commonwealth Society, 18 Northumberland Avenue, London WC2.

Quarterly discussion meetings have been arranged for October 22nd on 'Race relations', March 25th on 'The Christian and automation', and June 10th on 'The Christian in the Welfare State'. These will be held at 7.30 p.m. at the Waverley Hotel, Southampton Row, London WC1, preceded by a buffet supper. The Fellowship annual dinner has been planned for January 20th, at the Waldorf Hotel, Aldwych, London, WC2.

In addition, there will be meetings for Bible reading and prayer at 1 p.m. on the first Monday of each month, except August. They are held at the Church of St Peter-upon-Cornhill, London WC3, and similar meetings have been arranged for October, January, April and July in the vestry of the Church of St Giles-in-the-Fields London EC2.

Members, non-members and their ladies will be very welcome at all these meetings.

Monthly Meeting

The monthly meeting for Bible reading and prayer will be held at 1 p.m. next Monday, September 9th, at the Church of St Peter-upon-Cornhill, London EC3 (entrance in Cornhill, near Gracechurch Street). The Scripture for reading and thought will be 2 Corinthians, Chapter 9, verses 11 and 12.

SOLUTION TO HOLIDAY CROSSWORD—'17 MARKS'

Compiled by Kenneth Trickett, F.C.A.

The theme to the Holiday Crossword which appeared in last week's issue was 'golden' marks. The unclued words represented the locations of assay offices and their distinguishing marks.

■	■	1 B	■	2 I	■	■	■	3 E	■	4 A	■	5 W	■	6 B
7 C	L	I	E	N	T	8 S	■	9 D	E	N	A	R	I	I
A	■	R	■	F	■	U	■	I	■	C	■	I	■	L
10 S	U	M	M	A	T	I	O	N	■	11 H	O	T	E	L
T	■	I	■	V	■	T	■	B	■	O	■	■	■	O
12 L	O	N	D	O	N	■	13 G	U	A	R	D	14 I	A	N
E	■	G	■	U	■	15 S	■	R	■	■	■	N	■	■
■	16 C	H	U	R	C	H	■	17 G	O	18 L	D	E	N	■
■	■	A	■	■	■	E	■	H	■	E	■	Q	■	19 F
20 S	I	M	P	21 L	I	F	Y	■	22 V	O	L	U	M	E
U	■	■	■	E	■	F	■	23 H	■	P	■	I	■	N
24 B	O	25 R	N	E	■	26 I	N	E	L	A	S	T	I	C
M	■	O	■	W	■	E	■	A	■	R	■	I	■	E
27 I	N	S	T	A	L	L	■	28 D	O	D	G	E	R	S
T	■	E	■	Y	■	D	■	■	■	S	■	S	■	■

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Accounting for Inflation

SIXTEEN years have elapsed since the English Institute issued Recommendation XV entitled *Accounting in relation to changes in the purchasing power of money*. There must be many readers of this journal who by now have but the haziest recollections of the controversy which led the Institute to prepare that statement and the discussion it provoked which continued intermittently for several years to follow. There are probably as many younger readers who may only be dimly aware that this issue, if it did not split the profession, at least generated not only a lively but at times acrimonious debate.

Perhaps the most important change that has taken place during the intervening years is the attitude of the general public towards inflation. Whereas in the immediate post-war period the continuing rise in prices, which was sharply intensified by the Korean war, was regarded probably by a majority of people as a phase which would ultimately come to an end, today in 1968 the vast majority of the electorate is convinced that inflation is here to stay. *The Financial Times* share index has passed through the '500' barrier, house prices continue to spiral upwards, unit trusts blossom forth almost monthly with new offers, while the 'heavies, in Fleet Street nowadays publish articles on the merits of silver' stamp and book collections as alternative inflation hedges to equities. Nor are these developments restricted to Britain, they are world wide.

If it is acknowledged, however, that public opinion is nowadays inflationconscious to a much greater degree than it was in the 1950s, can it be asserted with equal confidence that an analysis of the consequences of inflation by another Millard Tucker Committee or Royal Commission on the Taxation of Profits and Income would arrive at the same conclusions as did those bodies more than a decade ago?

Conceptual differences – not to mention also differences of opinion as to the most effective method of meeting the effects of inflation, whether by tax allowances or by revalorization – made it much easier for both the Millard Tucker Committee and the Radcliffe Commission to reject the case for adjusting the tax charge to take account of inflation. The real basis for such a decision was clearly brought out in the Radcliffe Report. Thus, 'the fall in the purchasing power of money is common to the trader and other taxpayers . . .' (paragraph 345) and 'to depart from the historic cost basis for traders is to give preferential treatment to a particular class of taxpayer' (paragraph 353).

There can be no doubt that these arguments will be revived by the publication this week of a research paper entitled *Accounting for stewardship in a period of inflation.* Published as the first offering of The Research Foundation of The Institute of Chartered Accountants in England and Wales, it does not purport to represent the views of the Council but is 'designed for consideration by members of the accountancy profession and others'.[1]

Nevertheless, the Institute Council can hardly assume that the appearance of this paper at a time when inflation and the possibility of a second devaluation are matters for continuing debate (whatever may be claimed for the recent Basle agreement) will not have a considerable impact on industrial and commercial opinion.

That impact will be strengthened because in the minds of many participants in the earlier debate, the Institute was conservative rather than radical in its viewpoint. For such reasons some readers will not fail to note the comment in the paper that despite the fall of about one-third in the domestic purchasing power of the £ since 1952 (even before devaluation), 'the majority of companies in the UK have made no attempt in their published annual statements to measure the extent to which their reported profits have been attributable to the progressive decline in the value of the currency in which they are measured . . .'. And, again, a few paragraphs later 'over a period of years even a gradual fall in the value of money will, if progressive, have significant consequences'.

With the case stated, the aim of the research paper is 'to make sure that there is no misunderstanding of the nature of the calculations which require to be made in order to measure the effects of inflation on stewardship accounts which have been prepared on the conventional basis of historical cost'. In other words, the purpose of these calculations 'is to measure the loss or gain which has resulted from holding or owing pounds during a period of change in their value'. It therefore becomes necessary to convert 'all the assets and liabilities at the beginning of the period into terms of the value of pounds at the end of the period'.

Such adjustments recognize that items in the balance sheet which are money or claims to money 'are different from assets which are only expressed in terms of money for accounting purposes . . .'. The translation of 'historical cost accounts into terms of the current value of the pound will reveal, among other things' that the gross revenue will have to bear a heavier charge to maintain the physical assets. They will measure the loss or gain in the net monetary position (cash and net rights to the payment of money) in consequence of the fall in the value of money, and finally, the extent to which the real value of the equity capital has been eroded or augmented.

To the extent that the calculations for adjusting historical cost accounts bring out the extent of these changes, they 'would meet most of the criticisms which otherwise attach to historical cost accounting as the proper basis for reporting on stewardship'. The calculations for adjusting such accounts, once the preparatory work has been done, 'should not normally involve any great expenditure of time'. The essence of the calculations is not dissimilar to the adjustment of overseas accounts expressed in foreign currencies into sterling.

For purposes of translating historical costs into current replacement prices, the research paper recommends the use of the Consumer Price Index. This is used for adjusting the annual figures in the National Income and Expenditure Blue Book. The paper notes that the Index of Retail Prices 'covers a narrower field of expenditure and uses a different system of weighting' but provides 'a sufficient approximation for estimating short-term changes in monetary values'.

Routine calculations apart, 'there remains the question of whether, and if so how, the information revealed . . . should be reflected not merely in a supplementary statement or narrative comment but in the conventional accounts themselves'. Difficulties arise because conventional accounts have 'in most cases a legal function of accountability which does not recognize changes in the value of the £'. Furthermore, it will take some time for the general public to 'become accustomed to the significance of accounts presented in "current pounds" '.

To meet this situation the research paper considers that 'as a minimum it might be appropriate to follow in the conventional accounts the N 15 Recommendation [of 1952], and to set aside to an Inflation Reserve any amount by which the conventional profit exceeds the profit recalculated in terms of current pounds'. In which case it would be prudent, adds the paper, to add to this transfer, 'any amount by which the recalculated net profit has itself been augmented by a gain from a fall in the value of the preference and loan capital'. The case for such an adjustment is that this represents a 'gain to one section of the capital at the expense of the other', without of itself providing 'the undertaking with any additional funds for distribution'.

A further step recommended is that it should become a 'regular practice in the conventional accounts to restate the fixed assets and depreciation and, if

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[1] From The Institute of Chartered Accountants in England and Wales, 56/66 Goswell Road, London EC1. Price 10*s*.

(the adjustment is significant) the stock-in-trade and work in progress' in terms of current pounds. Such accounts would show 'relatively less favourable trading results but with the cost to the equity of servicing the non-equity capital reduced. . . .'

Ultimately, notes the paper, 'one might look forward to the converted accounts taking the place of the conventional accounts as a basis for reporting on stewardship'.

It cannot be denied that the prospect is interesting!

Current Affairs

Irish Institute's Examinations

THE results of the summer examinations of The Institute of Chartered Accountants in Ireland have now been announced and the names of the successful candidates in parts III, IV and V appear on other pages of this issue.

In Part V of the examinations, First Place and The Incorporated Society Jubilee Prize were won by Mr G. A. McEvoy, of Dublin. Mr F. N. A. Kelley, of Waterford, was awarded Second Place, and Third Place was awarded to Mr P. A. Ryan, of Dublin.

First Place and the Samuel Smyth Memorial Prize in Part IV were won by Mr J. Boyle, of Dublin. Second Place was won by Mr S. O. McNally, of Dublin, and Third Place by Mr J. W. R. Jackson, also of Dublin.

In Part III, First Place and the Arthur H. Muir Memorial Prize were won by Mr H. C. C. Smith, of Belfast. Mr A. C. Russell, of Dublin, was awarded Second Place, and Mr B. M. McCance, of Belfast, Third Place.

First Place and the John Mackie Memorial Prize in Part II were won by Mr J. N. Anderson, of Belfast. Second Place was awarded to Mr B. Daly, of Dublin, and Third Place to Mr E. F. Smith, also of Dublin.

Mr S. J. Treacy, of Dublin, was awarded First Place in Part I. Second Place was awarded to Mr B. A. Maguire, of Dublin, and Third Place was awarded jointly to Mr R. D. Earl, of Bailieborough, Co. Cavan, and to Mr G. A. Fagan, of Dublin.

Cost Accountants' Examinations

THERE were 9,769 candidates for the May 1968 examinations of The Institute of Cost and Works Accountants, of whom 3,904 were successful. The prize-winners in the various parts were as follows:

The S. Laurence Gill Prize for first place in part V: Mr P. Guy, Lancaster.

The Lewton Coronation Prize for the best paper in Advanced Accountacy and Financial Management in part V: Mr Khin Mg Oo, Rangoon.

The Harold Wilmot Prize for the best paper in Management Principles and Practice: Mr A. C. Bird, London N2.

The Leverhulme Prize for first place in Part IV: Mr D. W. Beattie, Birmingham.

The Donald L. Moran Prize for first place in Part III: Mr K. L. Morrell, London N10.

The W. B. Flowers Prize for the best papers in Financial Accountancy (Part III): Mr R. D. Smith, Luton.

The George Russell Memorial Prize for first place in Part II: Mr M. V. Williams, Henley on Thames.

The Roland Dunkerley Memorial Prize for first place in Part I: Mr J. R. Uttley, Abingdon.

The names of those successful in parts IV and V of the examination appear on other pages of this issue.

Summer School Season

LAST week-end The Institute of Chartered Accountants of Scotland held their summer school at the University of St Andrews – reported elsewhere in this issue – and next week the summer course of The Institute of Chartered Accountants in England and Wales and the summer school of The Institute of Cost and Works Accountants will take place at Cambridge. In addition, the Chartered Accountant Students' Society of London will be holding their residential course at Oxford, and also next week many accountants and tax specialists will be travelling to Eastbourne for the National Taxation Conference.

Over 180 members will be attending the English Institute's course at Churchill College, Cambridge, from Wednesday until Sunday, and an interesting programme has been arranged. Following an address of welcome by Mr Stanley Dixon, M.A., F.C.A., President of the Institute, there will be an informal talk on 'The role of the financial commentator', by Mr Harold Wincott, well known as a writer on financial matters. The three papers to be presented on the following days will be: 'Estate duty planning'; 'Long range planning and its significance for the accountant'; and 'Portfolio investments – aids to decision taking'.

The annual summer school of The Institute of Cost and Works Accountants will be attended by nearly 100 members and takes place at St Catharine's College from Monday until Saturday. 'Integrated management for improved profitability' will be the theme of the school and the main object will be to examine how effective co-ordination of business functions can help to improve efficiency. Two papers will be presented: 'Improving effectiveness in accounting', and 'Marketing research for optimum profit'. There will also be a case study session and the school will conclude with an address by Mr J. G. R. Tyndall, managing director, Miles Druce & Co Ltd, on 'Good communications and their contribution to profits'.

This year's Oxford course for members of the London Chartered Accountant Students' Society will be held from Thursday until Sunday at Balliol and Trinity Colleges. Among the subjects to be considered at group meetings and at plenary sessions will be 'Network planning' and 'Marketing'. There will also be a mock corporation tax appeal.

Papers to be presented at the National Taxation Conference at Eastbourne, which takes place from Friday next until Monday, September 23rd, will include 'Functions of the Land Commission with particular reference to betterment levy'; 'Economic aspects of capital gains taxation and corporation tax with special reference to a value added tax'; and 'Recent legislation – Finance Act 1968'.

I.R.C. and Labour

HOWEVER the Industrial Reorganization Corporation may conceive its role in our industrial society, it is inevitable that it should become inextricably intertwined with political and social issues. Its decisive intervention in the recent Cambridge Instruments take-over made this inevitable.

No one could have been surprised last week that the Trades Union Congress annual conference at Blackpool should castigate the IRC for its apparent failure to pay due regard to the social consequences of its decisions. As a result it is to insist that the IRC should meet the needs of 'public accountability'. In other words, pressure is being brought upon the IRC to compel it, when involved in negotiations involving the expenditure of public money, to seek to protect the jobs and career prospects of workers affected by any proposed merger.

The extent of the feeling among trades unionists over this issue was evident from the critical comments from the floor of the conference and the fact that the TUC General Council spokesman failed to persuade the delegates to remit the issue to the General Council.

The fact is, of course, that the IRC is already accountable to Parliament for its actions. Furthermore, although the criteria which determined its decisions are based on the industrial and economic merits of any proposed merger, it would be unlikely to ignore the probable consequences for the labour forces.

But there is obviously a limit to the extent to which the IRC can allow such 'external' considerations to influence its judgement. From the point of view of the economy – and not least the workers concerned – the issues of re-deployment are matters for the labour unions and the firms concerned. After all, the declared purpose of the IRC is to improve industrial efficiency, not to act as an economic stabilizer.

Special Charge

THE Board of Inland Revenue have published an explanatory booklet (I.R.8) on the Special Charge. Copies are available on application to the Controller of Surtax, Inland Revenue, Lynwood Road, Thames Ditton, Surrey (telephone 01–398 4141, extension 376).

The Revenue point out that special charge may be paid by using personal tax reserve certificates, which carry tax-free interest. Subscription forms and a prospectus can be obtained from Collectors of Taxes, from most banks, or from the Bank of England, Loans Office, 1 and 2 Bank Buildings, London EC2.

If special charge is paid after January 1st, 1969, interest will normally be charged from that date until the date of payment. If the payment is made by means of tax reserve certificates bought on or before January 1st, 1969, however, the interest charge will not be made.

Policy for Wages

FOR all the publicity, sound and fury which surrounds the Government's efforts to restrict pay awards to actual increases in productivity, there can hardly be any informed observer who believes the policy will succeed.

The latest proposal for resolving this apparently intractible problem comes from Professor J. E. Meade, of Cambridge. In *The Times* of September 5th, he advocated that pay awards should be determined on a plant and not national basis. The Prices and Incomes Board would continue to set a general norm based on the degree to which wage increases could be absorbed by productivity gains, but where there were labour shortages, wages would be permitted to rise more rapidly; just as where a surplus of labour was available, the rate of increase would be lower than the PIB norm.

The key point of Professor Meade's proposal is that the norm should not be a maximum. Any plant could ignore it but in the event of dispute, the employers and the unions would be entitled to appeal to an industrial court which would decide whether the claim was reasonable or not.

If the court ruled that one of the parties to the dispute was making a claim incompatible with basic principles, then the legal immunities of the trades unions and employers' associations should be suspended. The result would be that the funds of the parties concerned would be liable to claim for damages.

The scheme, like similar proposals made in recent years, would stand or fall by the extent to which any Government was prepared to lessen the protection afforded by the law to trades unions. Once that nettle has been grasped, the other difficulties pale almost into insignificance. Even so, there remains the problem of restrictive practices, unofficial strikes and similar pressures which can multiply the benefits of any 'productivity' agreement.

Britain and Efta

SINCE 1959 trade between the Efta countries has grown annually at a rate of 11 per cent; in total there has been a 132 per cent increase over this period. The United Kingdom, with an increase of 94 per cent since 1959, is the only member country which has not yet doubled its exports to its partners, and in consequence its share of total intra-Efta

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This is My Life

by An Industrious Accountant

I SLIPPED on the wet pathway – an accident due partly to a dirty scrap of orange peel – and sat down heavily. Half an hour later my knee had swollen bigger than the original orange and was horribly painful. Hobbling was barely possible. There was no alternative to a couple of days in bed to rest the leg.

The first duty, clearly, was to ring the office with news of the catastrophe. They're a pretty good bunch there; it would be tough going, of course, but they'd muddle through somehow. Anyway, they could always leave anything particularly delicate over till I could return.

Bad luck, said Costs; must be damn awkward. But not to worry, everything hunky-dory here; we'll manage fine. Sorry to hear about your dicky leg, came Prinny's voice later; suppose you've been putting your foot in it again, haw, haw. Take a good rest; I've told your chaps not to bother you with petty stuff; you're not as young as you used to be, what?

I didn't like that last crack of his. Personnel people are devoid of tact. After all, age is a matter of mind – not of years. You're as young as you feel, and so on. Just to demonstrate my up-to-date outlook, I delved into a weighty book on modern mathematical developments that I've been vaguely meaning to read for months past. Nothing like making profitable use of the idle hours, sharpening the keen edge of intellect, filling each unforgiving minute with sixty seconds' worth of distance run, as Kipling put it. Ahoy, the Olympian heights of intellect!

The first chapter was easy enough – all kindly exhortations to aspiring executives to keep abreast of vital and exciting innovations, plus some helpful indications that top managers needn't, of course, actually be able to *do* these exercises; to understand their basic principles was sufficient. Rather patronizing, in fact, but these mathematical chaps as authors are a bit insensitive.

Into action. Nodes, parameters, abscissa, Poisson bell-shaped distribution, simulation exercises . . . all right, really; simple enough; perhaps just re-read it to be absolutely clear about it all? That queueing theory graph of the Erlang function was like a barbed-wire entanglement to work through. Take a deep breath and forward again.

The chapter on transportation techniques and the North-west corner commenced easily enough; very gratifying, too, to work out the first three problems successfully. The fourth was a real humdinger, however; nothing seemed to fit; the calculation was incomprehensible.

'I'm completely bogged down in these matrices', I murmured as my wife brought in the morning coffee. 'A hard mattress is always the best for a sprain', she answered. It seemed simpler not to explain; just start the chapter on the simplex logarithm and say nothing.

Getting sleepy by this time. Realize that textbook operational research devices are a highly-specialized study, like executorship law or the last few Finance Acts. No point in a helpless invalid just dabbling amateur-wise in their intricacies in a limited time-span; they require hard slogging by a whole-time professional expert. Realize also that I've survived several decades without knowing iterative patterns from quadratic programming. Cost budgets and Schedule D are probably my limit. *Ne ultra crepitam.*

Just before going to sleep, easing my knee into a less hurtful position, I wonder whether we modern accountants should be experts in these new fields? Are we really failing in our duty to clients if we can't lead them up critical paths or through shadow-cost networks? It seems a long way away from disclosure of reserves or valuation of stock-in-trade.

trade has fallen from 32 per cent to 26 per cent.

Among the Efta countries only the UK registered an important increase in imports from the European Economic Community. Last year's increase of 12·6 per cent was well above the annual average since 1959. Although most Efta countries increased their exports to the rest of the world quite rapidly in 1967 this was almost completely offset by a fall of 2·4 per cent in British exports which account for 64 per cent of this trade. It is noteworthy that despite devaluation, in the first quarter of 1968 the UK was again virtually the only Efta country which failed to expand its exports as rapidly as the group as a whole.

These facts are reported in the eighth annual report :Efta just published, which also comments on the 'disappointing record of efforts during the past twelve months to achieve its long-term aim of a single market in Western Europe'. Whether or not Britain enters the EEC, it is clear that there is still considerable scope for expansion of trade with its partners in Efta. The somewhat disappointing performance last year will, it is to be hoped, soon be a matter of history.

Course for Overseas Accountants

EIGHTEEN senior accountants from Brazil, Ceylon, Ghana, Guyana, India, Jamaica, Kenya, Malaysia, Malta, Nepal, Nigeria, Pakistan, Sierra Leone, South Africa, and Uganda, will be attending a course in London on 'Government accountancy and audit' from September 22nd to December 13th.

The course, which has been arranged by the British Council in collaboration with various governmental departments and The Institute of Municipal Treasurers and Accountants, is designed to give senior accountants and audit officials from overseas Governments an opportunity to study United Kingdom technical and managerial problems either current or anticipated. The course will also include a number of study visits.

Management Ratios in Corporate Planning and Control

by JULIAN ANDERSON, M.A.(Hons. Econ.), B.Com., Dip.Inst.M.

Need for management ratios

THE relationships between profits earned, assets used to earn profits, and capital financing assets, are fundamental to strategic planning and control and essential for balanced growth.

Conventional accounting systems provide the data for financial planning and control, but do not give these relationships sufficient emphasis and tend to be preoccupied with detail. What is needed is some method of analysis which cuts through the mass of detail produced by routine accounting operations, simplifies it, and adds perspective so that the financial and trading structure of a company is clearly outlined in financial terms. The system of management ratios described in this article meets this requirement.

Recognition of importance of ratios

The use of ratios as an aid to management is, of course, not new. All trading companies use them to some degree but the great majority do so instinctively and mainly for the measurement of profit margins.

Recently, leading professional and Government establishments have campaigned vigorously for their conscious adoption and the extension of their traditional use to embrace the entire activities of an enterprise. It is now accepted that their proper application can help management improve company performance and increase the productivity of capital employed.

One of the best known examples of their use in Britain is in schemes conducted by the Centre for Interfirm Comparison. This organization has applied its system to over sixty industries and trades, and has the support of the NEDC, the British Productivity Council, BIM and numerous trade associations. It is now universally recognized as a leader in the development and use of management ratios.

The Press, and financial and investment analysts themselves, use ratios extensively to assess company performance. While the ratios they use are concerned largely with the relationship between company performance and the Stock Exchange price of its shares, these ratios can be related to those which a company would use internally for assessing its own performance. No public company can afford to ignore or to be unaware of public assessment of its performance. By

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The author acknowledges the assistance of his colleague, H. F. Somerville, C.A., in the preparation of this article.

the disciplined use of management ratios it can readily acquire the degree of self-knowledge which is a prerequisite to giving a satisfactory account of its activities to the public in general and to its shareholders in particular.

The system

The principal objective of the system to be described is to help management in its functions of planning and control. It is based on a logically structured view of the activities of a company. These activities are quantified in financial terms and arithmetically linked to a final test of overall success. This makes it possible for management to determine the effect of a change in any one activity on the success of the company as a whole.

The system is constructive in that it exposes successes as well as failures, and is dynamic in that it points to areas in which action is required to remedy failures and achieve targets.

The definition of all terms used is of paramount importance. Without clear definition the objective can be defeated by misleading interpretation. All terms used below are defined in Appendix 1.

Operating ratios (ref. Appendix 2)

It is the task of operating management to optimize the return on all resources invested in the business. If the return is consistently low then the investment, its management and/or company policy is questionable.

The primary test of operating success is given by the ratio:

$$\frac{\text{PROFIT BEFORE INTEREST AND TAX}}{\text{TOTAL ASSETS}} \qquad \text{(Line 1)}$$

Total assets represents the total resources invested in the business, and profit before interest and tax the return earned by the employment of those assets. The level of this ratio is therefore a concise reflection of management's achievement.

The level of the ratio will be affected by two principal factors: the profit margin earned, and the rate of total asset utilization. These are measured by the ratios

$$\frac{\text{PROFIT BEFORE INTEREST AND TAX}}{\text{TOTAL REVENUE}} \qquad \text{(Line 2)}$$

$$\frac{\text{TOTAL REVENUE}}{\text{TOTAL ASSETS}} \qquad \text{(Line 3)}$$

The first ratio is well known. The second expresses the rate of utilization of all assets involved in creating profit. If the proceeds received from the sale of goods are low in relation to the value of the assets producing them, then the rate of total asset utilization will be low, and vice versa.

The two ratios multiplied together give the primary ratio – profit before interest and tax/total assets, or return on total assets.

Depending on the type of business, which will naturally impose constraints, it is therefore possible to maintain return on total assets at a high level in one of three ways: either by combining a high profit margin with a low rate of total asset utilization, or a low margin with a high rate of utilization, or a relatively high margin and a relatively high rate of utilization.

Thus, if a given target return on total assets is to be met, controls must be applied and plans projected to ensure that a correct balance is maintained between the ratios – profit before interest and tax/total revenue and total revenue/total assets – and, of course, the factors which affect them.

The factors which affect the level of profit margins are governed by the relationship between cost items and total revenue. These relationships may be expressed by the following ratios:

$$\frac{\text{TOTAL DIRECT COSTS}}{\text{TOTAL REVENUE}} \qquad \text{(Line 5)}$$

$$\frac{\text{ADVERTISING AND SALES PROMOTIONS}}{\text{TOTAL REVENUE}} \qquad \text{(Line 6)}$$

$$\frac{\text{GENERAL OVERHEADS}}{\text{TOTAL REVENUE}} \qquad \text{(Line 7)}$$

Any change in these relationships, be it a rise in costs or a fall in revenue or the contrary, will alter the margin of profit. If a given margin is planned for, then examination of these cost ratios will enable management to spot areas of strength which should be maintained, or areas of weakness in which corrective action must be taken if the target is to be achieved.

Deeper analysis of the effect of cost items on profit margins can be made by an extension of the same principle. For example, the ratio general overheads/total revenue may be broken down into detailed ratios which relate its component parts to the same base, so isolating the factors which have affected it and therefore, ultimately, the level of profit margins.

The ratios which would apply here are:

$$\left.\begin{array}{c} \dfrac{\text{PRODUCTION INDIRECTS}}{\text{TOTAL REVENUE}} \\[2ex] \dfrac{\text{ADMINISTRATION COSTS}}{\text{TOTAL REVENUE}} \\[2ex] \dfrac{\text{SELLING AND DISTRIBUTION COSTS}}{\text{TOTAL REVENUE}} \\[2ex] \dfrac{\text{MARKETING COSTS}}{\text{TOTAL REVENUE}} \end{array}\right\} \text{(In total equal Line 7)}$$

The factors which affect the rate of total asset utilization can also be planned and controlled in the same way. By expressing fixed, current and other assets (which together equal total assets) as ratios of total revenue, a measure of the amount of capital invested in each of those assets in relation to the revenue which they produce is established. By inspection of the level of these ratios management can isolate areas in which too much capital is held relative to the value of goods produced.

The common denominator again provides an arithmetic link between the ratios. This makes it possible to determine the effect of a change in the value of any one ratio on the rate of total asset utilization. For convenience it is best to express detailed asset ratios in terms of average monthly revenue. The reason for this is that it is more meaningful to consider capital invested in any asset as being equivalent to so many months' revenue (e.g. debtors equivalent to 1·5 months' sales) than to say that asset is 0·125 of total revenue.

The ratio of total asset utilization must, however, be expressed in two ways:

(i) In terms of average monthly revenue

$$\frac{\text{TOTAL ASSETS}}{\text{AVERAGE MONTHLY REVENUE}} \qquad \text{(Line 4)}$$

so that the link, and therefore the cause and effect relationship, between the utilization of capital financing detailed asset items and the overall rate of utilization is maintained; and

(ii) as a straight ratio to revenue, so that its function as the multiplier in the profit margin/rate of utilization/return on total assets relationship is preserved.

The principal ratios which operating management would use to control the use of capital invested in assets are:

$$\frac{\text{FIXED ASSETS}}{\text{AVERAGE MONTHLY REVENUE}} \qquad \text{(Line 8)}$$

$$\frac{\text{CURRENT ASSETS}}{\text{AVERAGE MONTHLY REVENUE}} \qquad \text{(Line 9)}$$

$$\frac{\text{OTHER ASSETS}}{\text{AVERAGE MONTHLY REVENUE}} \qquad \text{(Not included in illust.)}$$

It is also possible to take this analysis further. By breaking down these ratios into more detailed ratios, operating management can determine the effect of, say, stocks, debtors and cash on the level of the ratio current assets/average monthly revenue. In such a case the detailed control ratios would be:

$$\frac{\text{STOCKS}}{\text{AVERAGE MONTHLY REVENUE}} \qquad \text{(Line 10)}$$

$$\frac{\text{DEBTORS}}{\text{AVERAGE MONTHLY REVENUE}} \qquad \text{(Line 11)}$$

$$\frac{\text{CASH}}{\text{AVERAGE MONTHLY REVENUE}} \qquad \text{(Line 12)}$$

Thus if investment in stocks were high relative to average monthly revenue, other things being equal, the ratio of current assets/average monthly revenue would also be high, and the rate of total asset utilization adversely affected. The analysis would therefore have pinpointed an area in which too much capital was being tied down relative to revenue, and in which corrective action should be taken to increase the overall rate of utilization.

Financial ratios (ref. Appendix 3)

While it is the duty of operating management to optimize return on total assets, it is the responsibility of the board of directors to optimize the return on the capital invested by the owners of the business: the final test of overall performance. The future growth and prosperity of the business depends on their success in doing this. The size of the return will determine the ability to pay dividends and plough back profits for future growth, and therefore the investment appeal of the company. The best measure of their achievement is the ratio:

$$\frac{\text{PROFIT BEFORE TAX}}{\text{EQUITY CAPITAL}} \qquad \text{(Line 8)}$$

To ensure that this ratio, return on equity capital, is consistently high the board must plan and control the principal factors which affect it. These are given by the ratios:

$$\frac{\text{PROFIT BEFORE INTEREST AND TAX}}{\text{TOTAL ASSETS}} \qquad \text{(Line 1)}$$

$$\frac{\text{TOTAL INTEREST PAID}}{\text{OUTSIDE CAPITAL}} \qquad \text{(Line 3)}$$

$$\frac{\text{OUTSIDE CAPITAL}}{\text{EQUITY CAPITAL}} \qquad \text{(Line 5)}$$

The first ratio has already been discussed in detail. Although it falls to operating management to keep it at a high level and control the factors which affect it, the board of directors will also wish to keep it under constant review for two reasons:

(i) they lay down the policy framework within which operating management carries out its task; and

(ii) its level is of great importance in fulfilling their ultimate responsibility to ordinary shareholders.

The second and third ratios are key measures of the financial structure of the business. Together they produce the capital gearing effect which, when applied to the ratio of return on total assets, gives return on equity capital. Control of these two ratios, which is the responsibility of financial management, is therefore important if return on equity capital is to be optimized.

The relationship between these three ratios, and the way in which they affect the return on equity may be described as follows:

(i) Total assets are by definition equal to total capital. Total capital is provided by:

(*a*) the ordinary shareholders (equity capital); and

(*b*) other sources (outside capital).

The profits from the employment of total assets are also the earnings of total capital, and both equity and outside capital must be regarded, in the first instance, as having earned a return at the same rate as the return on total assets (Lines 1, 2 and 7).

(ii) Outside capital consists of two types of finance:

(*a*) purchased capital, upon which interest must be paid; and

(*b*) free capital, which bears no charge.

The total effective cost of employing outside capital is given by the ratio total interest paid (arising from the cost of purchased capital) to outside capital (Line 3). This cost must be met out of the earnings accruing to outside capital. Any surplus earnings (Line 4) after payment of interest will then accrue to the holders of equity. This is so because the employment of outside capital requires no return other than the interest charged for its use. If the company has been so run that the employment of this capital has yielded earnings greater than its cost, then the surplus becomes a gain to the owners of the business.

Clearly the higher the earnings, which means the higher the return on total assets, and the lower the cost of outside capital, the greater will be the surplus accruing to equity. In no circumstances should the cost of outside capital exceed its earnings. If this happens, the resulting deficit will have to be absorbed by equity capital earnings (Year 3, Lines 3, 4, 6 and 8).

It is, therefore, important that financial management so arranges the structure of outside capital as to maximize the amount of free capital, and minimize the rate of interest paid on purchased capital.

(iii) When this surplus is expressed as a percentage of equity capital it will be increased or decreased depending on the relative size of equity funds to outside funds, as expressed by the ratio outside capital/equity capital (Line 5). If outside capital is twice as large as equity capital (i.e. the ratio is 2·0) then a surplus of x per cent on outside capital will be equal to a gain of $2x$ per cent when expressed as a percentage of equity capital. Conversely, if equity capital is twice as large as outside capital, then the surplus will, expressed as a percentage of equity, be $0{\cdot}5x$ per cent.

(iv) The resulting gain to equity capital (Line 6) must be added to its earnings (Line 7). Their sum is equal to return on equity capital (Line 8).

To optimize return on equity the board of directors must therefore not only see that the optimum return on total assets is earned but also that an appropriately high proportion of the total capital is raised from outside sources at an interest cost lower than the rate of return on total assets. Efficient planning and control of these factors should result in a high return on equity capital, give the company a good investment rating, and ensure its future growth and prosperity.

(v) The capital gearing effect (Line 9) – a convenient short-hand method of expressing the net effect of the cost of using outside capital and its importance as a source of finance for total assets – is then calculated by dividing return on equity capital by return on total assets. It expresses the factor by which the latter is increased or decreased by the financial structure of the business to yield the return on equity capital.

Overall performance (ref. Appendix 4)

The final test of success is return on equity capital. It has been shown that the level of this ratio depends on the good management of factors affecting both return on total assets and the capital gearing effect. Since return on total assets multiplied by the capital gearing effect is equal to return on equity capital, it follows that if a target return on equity is to be met, controls must be applied and plans projected to ensure that a correct balance is maintained between return on total assets and the capital gearing effect.

Years 1 and 2 in Appendix 4 show the effect of imbalance between these two ratios on the level of return on equity achieved as against the standard required, while the standard itself and Year 3 demonstrate the effect when a better balance is achieved.

Conclusions

To determine the most profitable use of existing and future resources and to ensure that the factors needed for growth are prepared for in the present, companies should have a comprehensive system for long-range planning.

A system of management ratios such as has been described is fundamental to long-range planning because it embraces all the activities of a company and relates them to the final measure of business success – return on equity capital.

With it management can:

(i) isolate the factors which account for strengths or weaknesses in their organization, see how they affect overall performance, and determine where action must be taken to correct shortcomings;

(ii) construct models of the expected future form of their company, and select the most desirable course of development;

(iii) lay down targets at group, subsidiary and departmental level, and show what factors are critical to their achievement.

Further advantages of such a system are that its:

(i) simplicity means that instructions and plans for development can be easily communicated to all levels of management;

(ii) flexibility allows for clear demonstration of the overall effect of adjustments to plans as circumstances change; and

(iii) link with targets allows for management accountability for given tasks.

Appendix I

DEFINITIONS

BALANCE SHEET ITEMS

Issued Ordinary Capital
+ Capital Reserves
+ Revenue Reserves
+ Undistributed Profits
= EQUITY CAPITAL

Issued Preference Capital
+ Debentures
+ Long-term Loans
+ Minority Interest
+ Bank Advances and Short-term Loans
= PURCHASED CAPITAL

Creditors
+ Taxation
+ Provisions
= FREE CAPITAL

Purchased Capital
+ Free Capital
= OUTSIDE CAPITAL

Equity Capital
+ Outside Capital
= TOTAL CAPITAL

Land and Buildings
+ Plant and Machinery
+ Other Fixed Assets
= FIXED ASSETS

Materials Stock
+ Work in Progress
+ Finished Goods Stock
= TOTAL STOCK

Total Stock
+ Debtors
+ Bank Balances and Cash
= CURRENT ASSETS

Trade Investments
+ Non-trade Investments
= OTHER ASSETS

Fixed Assets
+ Current Assets
+ Other Assets
= TOTAL ASSETS

PROFIT AND LOSS ACCOUNT ITEMS

Direct Labour
+ Direct Materials
+ Bought-in Costs
= TOTAL DIRECTS

ADVERTISING & SALES PROMOTIONS

Production Indirects
+ Administration
+ Selling and Distribution
+ Marketing
= GENERAL OVERHEADS

Preference Dividends
+ Minority Interest Dividends
+ Long-term Interest
+ Short-term Interest
= TOTAL INTEREST PAID

Total Directs
+ Advertising and Sales Promotions
+ General Overheads
+ Total Interest Paid
= TOTAL COSTS

Sales Revenue
+ Other Revenue
= TOTAL REVENUE

Average Monthly Revenue
= Total Revenue ÷ 12

Total Revenue
— Total Directs
— Advertising and Sales Promotions
— General Overhead
= PROFIT BEFORE INTEREST AND TAX

Total Revenue
— Total Costs
= PROFIT BEFORE TAX

Appendix 2

OPERATING RATIOS

FINANCIAL STATEMENTS AND OPERATING RATIOS FOR A FICTITIOUS COMPANY

Operating ratios are calculated from data given in the balance sheets and profit and loss accounts for this fictitious company. They demonstrate the linked relationship of the ratios discussed in the section on operating ratios and show the effect of changes in certain variables on the primary test of operating success as compared with a given standard of performance. Figures which are changed in the financial statements to illustrate a particular effect on performance are marked with an *. Those ratios which change as a consequence are indicated by a †. The line numbers given in the text refer to the lines in the table of operating ratios.

Table 1

BALANCE SHEETS (£)

	Standard	Year 1	Year 2
Fixed assets	480	480	480
Stocks	400	400	800 *
Debtors	250	250	250
Cash	70	70	70
Current assets	720	720	1,120
Total assets	1,200	1,200	1,600
Total capital	1,200	1,200	1,600

Table 2

PROFIT AND LOSS ACCOUNTS (£)

	Standard	Year 1	Year 2
Total revenue	2,400	2,400	2,400
Total directs	1,680	1,680	1,680
Advertising and sales promotions	120	120	120
General overheads	456	528 *	456
Profit before interest and tax	144	72	144
Average monthly revenue	200	200	200

Table 3

OPERATING RATIOS

Line:			Standard	Year 1	Year 2
1	Profit before interest and Tax/Total Assets (or Return on Total Assets)	(%)	12·0	6·0†	9·0†
2	Profit before Interest and Tax/Total Revenue	(%)	6·0	3·0†	6·0
3	Total Revenue/Total Assets	(times)	2·0	2·0	1·5†
4	Total Assets/Avg. Monthly Revenue	(months)	6·0	6·0	8·0†
5	Total Directs/Total Revenue	(%)	70·0	70·0	70·0
6	Advertising and Sales Promotions/Total Revenue	(%)	5·0	5·0	5·0
7	General Overheads/Total Revenue	(%)	19·0	22·0†	19·0
8	Fixed Assets/Avg. Monthly Revenue	(months)	2·4	2·4	2·4
9	Current Assets/Avg. Monthly Revenue	(months)	3·6	3·6	5·6†
10	Stock/Avg. Monthly Revenue	(months)	2·0	2·0	4·0†
11	Debtors/Avg. Monthly Revenue	(months)	1·2	1·2	1·2
12	Cash/Avg. Monthly Revenue	(months)	0·4	0·4	0·4

Appendix 3

FINANCIAL RATIOS

FINANCIAL STATEMENTS AND FINANCIAL RATIOS FOR A FICTITIOUS COMPANY

Financial ratios are calculated from data given in the balance sheets and profit and loss accounts for this fictitious company. They demonstrate the linked relationship of the ratios discussed in the section on financial ratios and show the effect of changes in key variables on the final test of business success as compared with a given standard of performance. Figures which are changed in the financial statements to illustrate a particular effect on performance are marked with an *. Those ratios which change as a consequence are indicated by a †. The line numbers given in the text refer to the lines in the table of financial ratios.

Table 1

BALANCE SHEETS (£)

	Standard	Year 1	Year 2	Year 3	Year 4
Equity capital	400	400	400	400	400
Outside capital	800	800	800	800	1,200 *
Total capital	1,200	1,200	1,200	1,200	1,600

Total assets	1,200	1,200	1,200	1,200	1,600

Table 2

PROFIT AND LOSS ACCOUNTS (£)

	Standard	Year 1	Year 2	Year 3	Year 4
Total revenue	2,400	2,400	2,400	2,400	2,600
Profit before interest and tax ..	144	72 *	144	144	192
Total interest paid	40	40	80 *	120 *	60
Profit before tax	104	32	64	24	132

Table 3

FINANCIAL RATIOS

Line:			Standard	Year 1	Year 2	Year 3	Year 4
1	Profit before Interest and Tax/Total Assets .. (or Return on Total Assets)	(%)	12·0	6·0†	12·0	12·0	12·0
2	Earnings on Outside Capital	(%)	12·0	6·0†	12·0	12·0	12·0
3	Total Interest Paid/Outside Capital	(%)	*5·0*	*5·0*	*10·0*†	*15·0*†	*5·0*
4	Surplus on Outside Capital	(%)	7·0	1·0†	2·0†	*3·0*†	7·0
5	Outside Capital/Equity Capital	(times)	2·0	2·0	2·0	2·0	3·0†
6	Gain to Equity	(%)	14·0	2·0	4·0†	*6·0*†	21·0†
7	Earnings on Equity Capital	(%)	12·0	6·0†	12·0	12·0	12·0
8	Profit before Tax/Equity Capital .. .. (or Return on Equity)	(%)	26·0	8·0†	16·0†	6·0†	33·0†
9	Capital Gearing Effect	(times)	2·17	1·33†	1·33†	0·50†	2·75†

Note: Figures in *italics* are negative.

Appendix 4

OVERALL PERFORMANCE

FINANCIAL STATEMENTS AND KEY PERFORMANCE RATIOS FOR A FICTITIOUS COMPANY

Key performance ratios are calculated from data given in the balance sheets and profit and loss accounts. They demonstrate the linked relationship between the ratios discussed in the section on overall performance and show the effect a change in either return on total assets or the capital gearing effect on return on equity capital. Figures which are changed in the financial statements to illustrate a particular effect on performance are marked with an *. Those key performance ratios which change as a consequence are indicated by a †.

BALANCE SHEETS (£)

	Standard	Year 1	Year 2	Year 3
Equity capital	400	400	400	400
Outside capital	800	800	800	1,200 *
Total capital	1,200	1,200	1,200	1,600

Total assets	1,200	1,200	1,200	1,600

PROFIT AND LOSS ACCOUNTS (£)

	Standard	Year 1	Year 2	Year 3
Profit before interest and tax	144	72 *	144	192
Total interest paid	40	40	120 *	60
Profit before tax	104	32	24	132

KEY PERFORMANCE RATIOS

Line		Standard	Year 1	Year 2	Year 3
1	Profit before Interest and Tax/Total Assets (%)	12·0	6·0†	12·0	12·0
2	Capital Gearing Effect .. .. .. (times)	2·17	1·33	0·5†	2·75†
3	Profit before Tax/Equity Capital .. .. (%)	26·0	8·0	6·0	33·0

A Case is a Case is a Case

The Value of Precedents

by HAROLD E. COX, B.A.(Hons), H.M. Senior Inspector of Taxes (retd.)

A POINT is in dispute. The Inspector of Taxes writes to the accountant repeating the ritual arguments which he frequently adorns with some bare-bone references to the titles of tax cases. The implications are that the decisions in these cases are binding precedents. Amen.

What the harried accountant must always keep in mind at this stage is that the inspector, nine times out of ten, has done no more than refer to his manual (where the titles of the cases are mentioned) or, at most, to *Harrison's Index*. The precedent value of the cases quoted may thus be quite negligible.

The normal rules in the doctrine of precedent apply to tax cases but a precedent case is not to be extended beyond the legitimate principle on which the Courts decided it.

As long ago as 1901, in *Quinn v. Leathem*, Lord Halsbury remarked:

> 'A case is only an authority for what it actually decides. I entirely deny that it can be quoted for a proposition that may seem to follow logically from it. Such a mode of reasoning assumes that the law is necessarily a logical code, whereas every lawyer must acknowledge that the law is not always logical at all.'

English law is based largely on case law; case law consists of the rules laid down by judges in giving decisions; these decisions constitute precedents.

In a system based on case law, judges in subsequent cases must have regard to precedents. In certain circumstances they can be said to be 'binding' or 'coercive' and the judge must accept them. On the other hand, however, the precedent may have only a 'persuasive' effect and the degree of persuasiveness varies considerably. The application of the doctrine of precedent is not mechanical, and an apparently binding precedent may often be evaded by 'distinguishing' the facts.

So far as tax law is concerned, precedents are only of value in determining questions of law. A presumptive similarity of facts with those in a previous case has no binding authority of any kind. The General and Special Commissioners are the sole judges of fact, so that decisions of higher Courts which simply confirm the commissioners' decisions as being correct, based on the facts before them, are of no real significance.

The distinction between law and fact does, however, present another difficult problem and, in the context of the doctrine of precedent, the question whether a particular matter is one of law or of fact is itself often a question of law. This is frequently the expedient employed by the inspector when he expresses dissatisfaction with a commissioner's decision against the Revenue. It gives him the opportunity to obtain instructions from Somerset House.

It is one of the basic principles of the administration of justice that like cases should be decided in a like manner; thus judicial precedent has some persuasive effect almost everywhere because *stare decisis* (keep to what has already been decided) is a maxim of almost general application.

Nevertheless, it must always be borne in mind that the only part of a case which has any binding authority is the *ratio decidendi* (the reason for deciding) – the rule of law upon which the decision is founded.

The form of the judgments in Courts of Appeal consists almost invariably of a review of the facts and arguments and a discussion of the relevant questions of law. Not everything said by a judge in the course of his judgment constitutes a precedent, because among the propositions of law enunciated by him only those which he considers necessary for the decision form part of the *ratio decidendi*; the remainder are simply *obiter dicta* – remarks by the way.

The distinction between *ratio decidendi* and *obiter dictum* would seem sometimes to be devoid of practical significance, but this is not so. It is undoubtedly a most important feature of the doctrine of precedent.

There is no one simple coherent method of ascertaining the *ratio decidendi* of a case: it is an art which calls for study and practice. In order to distinguish it, regard must be had to all the facts of the case – the issues raised by the pleadings and arguments; the previous state of the law. The *ratio decidendi* of a case is generally the proposition of law for which that case is cited as an authority and so it is often helpful to study the observations made on the decision by judges in later cases.

There is no rule, no formula, which can be applied automatically; it is a process of analysis and synthesis – 'a process of abstraction from the totality of facts' occurring in the case. The *ratio decidendi* is the actual judgment in relation to the facts which the judge considered material.

The term *obiter dicta* is appropriate to the remarks made by the judge which are irrelevant to the case in which they occur; they are statements made by way of explanation, illustration or analogy; statements of legal principle which are not necessary to the decision in the case being heard. Briefly, a *dictum* can be summarized as a statement by a judge which was neither expressly, nor by implication, treated by him as a necessary step in reaching his conclusion.

The whole process of excluding the *obiter dicta* and stating the *ratio decidendi* is frequently much simpler with an actual case to work on. When reference has to be made to a tax case, the full reported case should first of all be read through at a leisurely pace in order to get a conspectus of the facts, contentions and arguments. Then the facts must be compared with those of the case in dispute. Are they analogous? Are they wholly or partially distinguishable? Has the reported case any relevance as a binding precedent?

If the judge has confined himself to confirming the decision of the Commissioners as being correct in fact, then no point of law has been decided upon and the case has little, if any, value as a precedent.

If, however, there is some similarity between the reported case and the one in dispute, then the whole of the report must be studied and analysed in detail. It is often helpful to concentrate first on the actual decision of the judge, then to go back and find the reasons which compelled him to come to his decision. By adopting this method it is frequently quite a simple process to eliminate the *obiter dicta* and to abstract the *ratio decidendi* which, of course, alone has any binding authority.

Now one must ask again – does this decision fit the facts of the case in dispute? Is like being compared with like? Can it be distinguished by pointing to some vital fact it contains – or lacks – by comparison with the case under consideration?

The judge in the reported case may have enunciated an unnecessarily wide rule without considering all the possible consequences, some of which have subsequently become unjust, unreasonable or inapplicable – which does happen more frequently than expected.

This process of narrowing down the implications of the *ratio decidendi* by 'distinguishing' is a perfectly legitimate one and can be a most useful weapon in defence of any vulnerable tax victim.

The tax cases quoted by the inspector may probably now be seen in a more rational and real perspective. He can be told that, in your opinion, the precedents are not relevant to the facts of the case in dispute; that the expressed *ratio decidendi* can be 'distinguished' when the occasion arises.

Lord Halsbury can be quoted once more:

> 'Every judgment must be read as applicable to the particular facts proved, or assumed to be proved, since the generality of the expressions which may be found there are not intended to be expositions of the whole law but govern and are qualified by the particular facts of the case in which such expressions are to be found.'

The doctrine of precedent declares that cases must be decided in the same way when the substantive material facts are the same. But how often can this coincidence occur in the misery-go-round of taxation?

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The Accounting World

Topics of Professional Interest from Other Countries

SOUTH AFRICA

Change of Name of Provincial Societies

SOME twelve months or so ago it was decided that it would be desirable for the names of the four provincial societies to emphasize the fact that they are professional bodies of chartered accountants.

The Cape Society, being a voluntarily founded body, changed its name to 'The Cape Society of Chartered Accountants' some months ago. In June the Society of Accountants and Auditors in the Orange Free State, another voluntarily founded body followed suit and changed its name to 'The Orange Free State Society of Chartered Accountants'.

The Transvaal Society of Accountants, which was incorporated in 1904 in terms of an Ordinance of the former Transvaal Legislative Council, and the Natal Society of Accountants, which was likewise incorporated in 1909 by an Act of the former Natal Parliament, had both to await the passing of an enabling Act of the Parliament of the Republic of South Africa before they could bring about the desired change of name. In the last session of Parliament a short Act was passed providing that the two bodies shall continue in existence as bodies corporate with perpetual succession under the names of 'The Transvaal Society of Chartered Accountants' and 'The Natal Society of Chartered Accountants' respectively.

The Act, which sets out the objects of the respective societies and provides for the conduct and regulation of their business, is to come into operation on a date to be fixed by the State President by proclamation in the *Gazette.*

Amendment to the Companies Act

DURING the recent session of Parliament, a short amending Act to the Companies Act 1926 was passed and has now been promulgated with effect from June 13th, 1968. This amending Act introduces an important departure from the basic principles underlying the establishment of limited companies.

It is now provided that:

> 'The directors and former directors of a private company limited by shares shall be liable jointly and severally together with the company, for such debts and liabilities of the company as are or were contracted during their periods of office, if the memorandum of the company contains a provision to that effect.'

It is further provided that the name of a private company which contains such a provision in its memorandum shall conclude with the word 'Incorporated' (English) or 'Ingelyf' (Afrikaans) as the last word of its name. Where abbreviations of the last word or words of a company's name are used permissibly, the abbreviations 'Inc.' or 'Ing' are to be used for such companies.

A further amendment to the main Act now provides that the Registrar of Companies shall not be obliged to keep documents of a private company lodged as its annual list and summary for longer than two years from the date upon which such documents are so lodged. As there are many thousands of private companies on the register, many of which have been lodging annual lists and summaries for over forty years, the saving on filing space in the office of the Registrar which this provision will bring about can well be imagined.

Financial Institutions Amendment Act 1968

AMENDMENTS to a number of Acts relating to financial institutions with which accountants and auditors are concerned in the course of practice have also been passed by Parliament.

The Building Societies Act 1965, has been amended extensively. *Inter alia*, it is now provided that the appointment of certain officers of societies as directors thereof is to be permitted within certain limits; that societies are enabled in certain circumstances to exercise their powers outside the Republic; that a building society may establish or join with other building societies in acquiring or establishing an insurance company with limited liability, the main activities of which shall be the effecting of insurance in respect of immovable properties mortgaged to the society and other related types of security; that shares in a building society forming part of the assets of an insolvent or deceased estate may now be paid out at shorter notice than is normally required; that every permanent society shall establish and maintain a general reserve and shall pay into such reserve the amount standing to the credit of its statutory reserve as at the date of the commencement of the Act and may add to such general reserve such amounts out of its profits as it may from time to time deem fit (in other words, the requirement that a statutory reserve built up by prescribed annual appropriations of profits shall be maintained has been abandoned and the building up of a general reserve is now left to the discretion of the directors of the society concerned), and finally, that where the auditor of a society is a partnership, the appointment of such auditor shall not lapse by reason of a change in the constitution of the partnership as long as not less than half the partners in the old partnership continue in the reconstituted firm.

The Unit Trust Controls Act 1947 has been amended in various respects to make the general operations of such trusts more flexible. In particular, the Act has been amended to provide that the compulsory investment in approved securities (that is, in securities issued or approved by the

Government of the Republic) shall be increased from a minimum of 10 per cent of the aggregate market value of all securities in the unit portfolio to a minimum of 15 per cent and the compulsory investment in securities issued by the Government itself has been raised from 5 to 7½ per cent of the market value of the portfolio. Companies are given twelve months within which to bring their portfolios into line with this requirement. The requirements in relation to the issue of annual accounts, duly audited, to every unit-holder have been tightened up considerably and the minimum information which such accounts are to contain has now been specified in great detail. Conditions under which shares in a fixed property company may be included in a unit portfolio have been tightened up and elaborated extensively.

The Pension Funds Act 1956 has been amended in minor respects in relation to the appointment of an auditor to a registered fund.

The Friendly Societies Act 1956 has been added to by the insertion of sections providing for the protection as against creditors of any moneys due by way of benefit to a member on his retirement or death.

RHODESIA

Decimalization of Currency

THE currency of Rhodesia is to be decimalized with a switch from the pound to a dollar unit on February 17th, 1970. The official notification of the changeover date was made in a recent Government proclamation. As from the date stated the currency units will be the Rhodesian dollar (equivalent to the South African rand, or 10*s*) and the Rhodesian cent.

ISRAEL

Development of the Profession

THE Institute of Public Accountants in Israel has recently issued its first publication in English, giving information on the development of the profession in Israel and on prescribed standards of auditing, reporting and professional conduct. In his foreword the President, Mr I. Mann, says that another publication is to follow, containing translations of the model forms of financial statements developed by the Institute for various branches of the economy. From time to time further translations in English will appear of recommendations, guidelines and research work of interest to the profession in other countries.

When the British Mandate came to an end in 1948, there were in Israel 60 qualified accountants, 43 of whom were members of a body founded in 1931 by a group of local practising accountants. It is this which has developed into the present Institute. Most of those concerned had qualified through The Institute of Chartered Accountants in England and Wales and The Association of Certified and Corporate Accountants. The Central Committee took early steps to meet the need for an organized profession in anticipation of large-scale immigration and rapid economic expansion. An examination syllabus was drawn up and in 1950 preparatory courses were introduced at the Hebrew University, at Tel Aviv, and later at the Haifa College.

In 1955, after lengthy deliberations in which the Israeli Institute took an active part, the Auditors Law was passed. The Minister of Justice was charged with its overall enforcement but an Auditors Council, consisting of five senior Government officials and four practising members of the Institute, deals with the general administration, and the ethical and professional conduct of auditors.

The examination syllabus has been revised and modernized, and in 1965 the Institute co-operated with the Auditors Council in formulating 'Regulations concerning conduct derogatory to the profession' which were approved by the Minister of Justice. Membership of the Institute is now over 760 and there are active district societies in Tel Aviv, Jerusalem and Haifa. The Institute maintains contact with accountancy bodies in other countries and has participated in international congresses.

The main objectives for the next ten years are increased co-operation with the universities; the merging of the Auditors Council with the Institute through appropriate amendments to the Auditors Law; and the recognition of education for the profession as academic studies requiring the taking of a degree. It is considered desirable that within a few years all accountancy students shall be required to study at a university.

BELGIUM

Taxes in the Common Market

IN the course of an appreciative – and much appreciated – reference to *The Accountant*'s wide coverage of professional problems in all parts of the world, M Maurice Potier, a member of the Association Nationale des Comptables de Belgique, writes in *Echo* that he has been struck by the admiration of British accountants for the continuing efforts of the Common Market countries to harmonize fiscal policy in connection with indirect taxes, and their perseverance in introducing the added value tax, and abolishing customs duties.

By January 1st, 1970, all Common Market countries should have brought their systems of taxation into line and the added value tax will be a characteristic of the EEC. The effects of this, however, are questioned. Some claim that it will increase prices, others that it will lead to reductions. Some think that it will encourage modernization and stimulate exports, others that the cost of imports will increase and the result will be something similar to a modest devaluation of currency. The experience of the EEC will be invaluable for the United Kingdom, which must begin to think seriously about revising its indirect taxes if it intends to pursue the objective of becoming a member.

Referring to the proposals relating to the future of the profession in the British Isles, M Potier expresses the opinion that it must be able to present a united front to the variety of problems arising within the framework of the modern economy.

INDIA

Cost Accountants' New President

AT a recent meeting of The Institute of Cost and Works Accountants of India, Shri N. K. Bose, B.SC., D.B.A., F.I.C.W.A., F.C.W.A., J.DIP.M.A., A.C.I.S., A.M.B.I.M., was was elected as the President of the Institute for the year 1968–69. The new Vice-President of the Institute for the ensuing year is Shri G. K. Abnyankar, B.SC., F.I.C.W.A.

MANAGEMENT INFORMATION

Safeguarding the Real Value of Earnings

THE effects of inflation upon various spheres of economic activity is an ever recurring subject of discussion, particularly in its effects upon income, profits and the burden of taxation.

A useful contribution to the problem of dealing with inflation as it affects business profits appeared in the *Financial Executive* (New York) for April. Here the writer of an article entitled 'Defending Profits against Inflation', is Mr James McKee, Jun., who is a graduate of McGill University, and he has had first-hand experience in coping with this problem in practice having served as managing director of the Brazilian affiliate of the Corn Products Company, and in other senior management posts in Italy and Cuba.

What is profit?

The first major point made is that inflation can so erode the purchasing power of money that part or the whole of reported earnings may be lost in the process. A business cannot be said to have achieved any growth unless the net worth (or equity) measured in real terms – in contrast to money terms – has increased in value. If a business earns 10 per cent on its net worth, but at the same time the value of net worth in real terms has been reduced by 10 per cent, then the business cannot be said to have made a profit in that year in real terms.

There is much food for thought in this statement in British boardrooms. Companies in the United Kingdom over the last fifteen years have had a return on equity *averaging* just over 9 per cent. Bearing in mind that inflation has been proceeding at between 3 per cent and 4 per cent in recent years, one questions how profitable in real terms have been some companies which have had lower than average profitability.

The second point made is the way in which inflation has sucked up and nullified the benefits of increased productivity and technological change. Because the price of some items has remained relatively stable one tends to underestimate the effects of inflation. What should be borne in mind, however, is that but for inflation we should be enjoying the fruits of increased productivity and advances in technology in the form of reduced prices and a higher standard of living.

Above all else the businesses should be concerned to avoid 'decapitalization', that is, where the profits of the business are insufficient to maintain the value in real terms of the equity. This term was coined in Latin America which has seen extensive inflation since the last war, but the possibility should not be dismissed that it could occur elsewhere. Indeed one suspects that it has already happened with some British companies.

Defensive measures

The impact of inflation may be limited by the composition of the balance sheet items and the form in which particular assets and liabilities are maintained. In his article, Mr McKee discusses a number of practical steps which can be taken. Because of his work in areas where what might be termed super-inflation has been endemic, the points he makes deserve serious consideration.

(*a*) *Currency holdings and commitments.* As far as is possible remittances should be made as soon as possible out of a currency which is losing value to one which is more stable and vice versa; commitments in terms of a stable currency should be covered by currency acquisition or payment as soon as possible.

(*b*) *Fixed assets.* By and large, fixed assets – in particular land and buildings – tend to maintain their value in real terms.

(*c*) *Timing price increases.* Cost inflation must be covered by raising prices. In considering the extent and timing of price increases, due regard should be given to the 'lead time' involved before the increased prices become effective in the cash flow; e.g. if materials and wages costs go up, cash received in respect of current manufacturing operations may not be received for many months. Increases in prices should be brought forward in time so that the increased cash flow is available as soon as the outgoings increase. This postulates some way of forecasting the rate of inflation in the future.

(*d*) *Cash* is the most vulnerable form of asset and as far as inflation is concerned should be kept to the minimum amount consistent with safety.

(*e*) *Debtors* is another vulnerable asset because it is expressed and paid in cash terms; credit control and follow-up procedures, as well as cash discount policies, should be devised to reduce the cash value of debtors to a minimum.

(*f*) *Stocks and work in progress.* From a purely inflationary point of view the holding of stocks etc. should be maintained at as high a level as possible since real values will tend to be maintained. There are, however, other considerations to be taken into account. The holding of stocks incurs costs which can sometimes be quite substantial. Also, inflation profits that arise when the stocks are eventually sold incurs tax, and where the tax rates on the top slice of income are very high most of this value will be appropriated by the State.

(*g*) *Protective borrowing.* Just as assets which are expressed and payable in money terms are the most vulnerable to inflation, so liabilities expressed in the same terms are the best protection against it. All liabilities which have to be met in constant money terms such as long-term loans, creditors, tax liabilities, etc., should be maintained at as high a level as possible. This may principally be achieved by postponing payment for as long as possible. The longer the term over which money is owed, the better is the form of borrowing a hedge against inflation. There should, therefore be a positive policy to maximize the use of debt in the capital structure of the business, and if this is not possible and the rate of inflation is high, then that unloved form of share – the preference share – should be considered since it is expressed in constant money terms. Nor should one forget the shorter forms of credit that can be used through delaying the payment of accounts. The company which pays its tax two years after the average time of earning the related profits is getting a 'discount' of over 8 per cent where inflation is proceeding at 4 per cent per annum.

Replacement Tables for Durable Goods

WHEN forecasting levels of activity which are dependent upon the sale of durable goods, the life cycle of the product will have a significant influence upon demand. Techniques which provide management with a table of replacement periods for their products will in such circumstances, be fundamental to the setting of sales targets.

A simple estimating technique which may be used for durable goods was discussed in an article by David T. T. Frost of David Frost & Associates, entitled 'Life Tables for Durables', in *The Financial Times* of April 25th, In essence the technique is similar to that used in the preparation of mortality tables for life insurance.

A large enough sample of the product is taken and year by year a study is made of the units remaining in use. This study provides the data to compile a table showing the numbers surviving at different intervals of time, the 'mortality' of the durable in each year of service, and average life expectations at different periods.

Data for the construction of such tables can, of course, be gained in various ways. Perhaps the most satisfactory method is that just outlined. Alternatively the data may be derived from an examination of past sales records, questionnaires to consumers when they replace durables or, where the total stock of units in use is known, e.g. motor-cars, through the calculation of a stock/acquisition ratio.

The 'life' tables themselves must, of course, be treated with some reserve. One must not, for example, impute to such tables the stability enjoyed by human mortality tables. Habits can change dramatically over a relatively short period of time: for instance, it may be expected that the replacement cycle for motor-cars has changed significantly as a result of the introduction of M.o.T. tests.

A company's image may require the maintenance of certain standards for some durables and so affect the replacement period, and of course the changing economic climate will tend to shrink or stretch normal replacement periods.

Finance and Commerce

Wax polishing

WAX polishing the bodywork may make a car look more impressive but it does not improve performance if the engine needs overhauling. By the same token, glossy paper, colour for comparative figures and a picture or two do not improve a company's reporting performance if the content of the report requires attention.

The directors of The General Engineering Co (Radcliffe) Ltd have, presumably, spent more money on the company's report and accounts this year and have applied, so to speak, some wax polish but the 'engine' of the report still needs overhauling. This week's reprint of the accounts can be taken as evidence.

The profit and loss account, for example, is presented virtually on the same lines as last year with the difference that last year there was a heading across the double quarto opening – 'Consolidated profit and loss appropriation account for the year ended November 30th, 1966' – in the gap left vacant in the latest accounts. This year the account, it will be seen, is headed 'Consolidated profit and loss and appropriation accounts'. Shifting headings does not necessarily improve style and content.

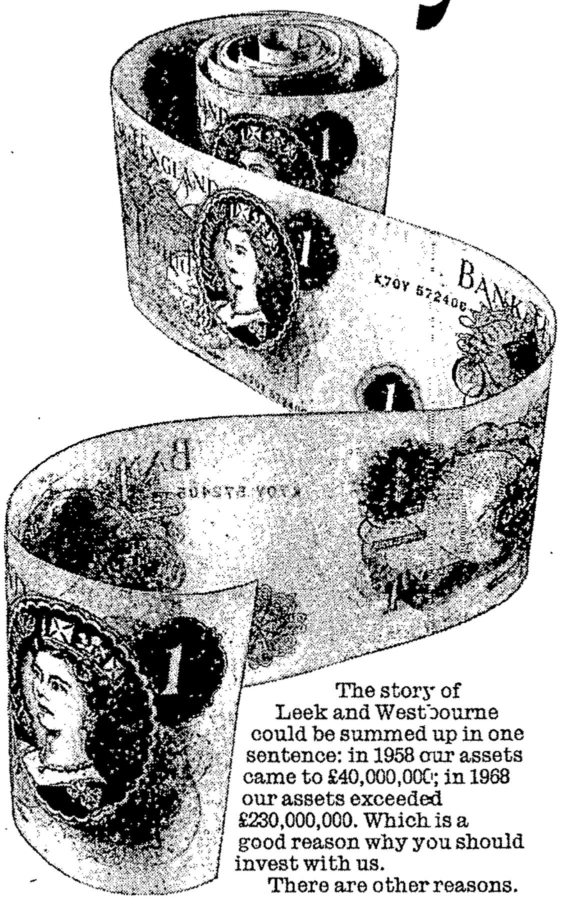
Easier to read

The fact that the heading, like the comparative figures, is in blue type and not black as last year, does not alter the fact that the account is inadequate as any profit and loss account must be that opens, for the normal left to right reader, with the 'depreciation and amortization' figure.

Similarly, different layout, different type and comparatives in blue do not improve the balance sheet all that much even though the presentation, due to the placing of some of the previous year's detail in this year's notes, is cleaner.

The need to comply with the new Act probably made the directors think in terms of furbishing up the report and accounts a bit and, to be fair, the new style of print, paper and the use of a little colour makes the report better to look at and easier to read.

Money breeds Money



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But 'Note 12 Turnover' probably implies a boardroom view – a boardroom very largely of engineers it may be noted – that going beyond the requirements of the Act is not altogether a good thing. The turnover figure seems to be very grudgingly given – 'the turnover of the group required to be stated in accordance with Schedule 2, Companies Act 1967. . . .'

Changed order

Another point to be made about the latest report and accounts is that the order of presentation has been changed from last year.

Last year's order ran: index of contents, board of directors, notice of meeting, directors' report, consolidated balance sheet, consolidated profit and loss and consolidated profit and loss appropriation (on one page), parent balance sheet, notes and auditors' report, and finally the chairman's review on three pages.

This year's order runs: contents, notice of meeting, board of directors, chairman's review (three pages), directors' report (two pages), auditors' report (page to itself), profit and loss account, consolidated balance sheet, parent balance sheet, notes (over four pages) and finally one page of two pictures. It will be noted that the new form is not extended to the provision of any running record or review which is generally considered to be an essential part of company reporting.

It is admittedly good to find this company making the effort to improve the appearance of its report, but the effort could, with profit to the reader, have been better devoted to providing more information rather than presenting virtually the same, and to a degree inadequate, information in slightly different form and order.

Budgetary Control

The principal activity of the group, *vide* the directors' report, is 'the manufacture of capital equipment for industry, local authorities, research and educational establishments' and in the sixteen months covered by the report exports totalled £1,145,414, which in is a useful exporting rate set against the sales figure quoted in the notes.

The late chairman in his report on the financial year to November 1966 referred to internal reorganization 'involving a more sophisticated approach to budgetary control and accounting procedure' and improvement to 'existing systems of control of stocks, purchasing and production'. Reviewing the 16 months to March 1968, the present chairman says that the period's turnover was only marginally in excess of the previous year's figure and although the works were kept fully employed, 'a considerable part of our activity, especially during the latter months, is reflected in a substantial increased work in progress value'.

'Work in progress valuation', the chairman explains to shareholders, 'does not fully recover overhead costs and brings in no allowances for profit, and therefore not only do we have a reduced rate of turnover but also a reduced profit level'. The order book is currently high and, although export inquiries are taking a long time to mature into orders, the board 'look forward to a restoration in the current year of the profit level achieved during 1965 and 1966'.

THE GENERAL ENGINEERING COMPANY (RADCLIFFE) LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS AND APPROPRIATION ACCOUNTS

For the sixteen months ended 31st March, 1968.

Year ended 30th November, 1966 £	£		Note	£	£
54,093		Depreciation and amortisation			88,729
—		Bank interest paid (less received)	(1)		31,405
17,103		Staff superannuation			22,680
2,415		Audit fees			3,361
55,191		Directors' emoluments	(2)		53,171
		Provision for taxation in respect of profits for the period	(3)		
	166,500	Corporation Tax		141,000	
	5,000	*Less* overprovision in prior years written back		—	
161,500					141,000
276,740		Net profit carried down			204,927
£567,042					£545,273
50,000		Transfer to general reserve			—
—		Formation expenses of Italian subsidiary written off			798
		Dividends:			
	—	Interim of 7½% paid December 1967		48,750	
	146,250	Proposed Final of 22½%		146,250	
146,250					195,000
		Balance carried forward:			
	403,488	Parent company		443,614	
	25,678	Subsidiary companies		(5,319)	
429,166					438,295
£625,416					£634,093

Year ended 30th November, 1966 £		£
553,465	Trading profit	545,121
13,577	Bank interest received (less paid)	—
—	Dividend from unquoted investment	152
£567,042		£545,273
	Balance per last account:	
325,186	Parent company	403,488
23,490	Subsidiary company	25,678
348,676		429,166
276,740	Net profit for the period brought down	204,927
£625,416		£634,093

The Notes on page [353] form part of these Accounts.

THE GENERAL ENGINEERING COMPANY (RADCLIFFE) LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

as at 31st March, 1968

30th November, 1966 £	*30th November, 1966* £		Note	£ Authorised	£ Issued
		Capital			
650,000		8,500,000 shares of 2s. each		£850,000	650,000
		Reserves			
	335,106	Share premium account		335,106	
	122,864	Property revaluation account	(5)	122,864	
	300,000	General reserve		300,000	
	429,166	Unappropriated profits		438,295	
1,187,136					1,196,265
1,837,136					1,846,265
		Current Liabilities			
	123,243	Bank overdrafts	(6)	767,603	
	872,492	Creditors and accrued charges		829,537	
	36,522	Deposits on orders		320,007	
	352,000	Corporation Tax		141,000	
	50,507	Income Tax, Schedule F		3,910	
	146,250	Proposed Final dividend of 22½%		146,250	
1,581,014					2,208,307
£3,418,150					£4,054,572

30th November, 1966 £	*30th November, 1966* £		Note	£	£
		Fixed Assets	(7)		
		Land and buildings			
	470,538	Freehold		585,168	
	8,526	Long leasehold		5,778	
	9,498	Short leasehold		10,188	
488,562					601,134
298,208		Plant, equipment and motor vehicles			347,534
786,770					948,668
		Current Assets			
	1,452,522	Stock and work in progress	(9)	1,999,996	
	134,230	*less* progress receipts		350,935	
	1,318,292			1,649,061	
	1,303,352	Debtors (*less* doubtful debts)		1,451,923	
	8,769	Cash at bank and in hand		3,953	
	967	Unquoted investment at cost	(10)	967	
2,631,380					3,105,904
£3,418,150					£4,054,572

B. J. ALGAR
T. P. WHITWORTH } *Directors.*

The Notes on page [353] form part of these Accounts.

THE GENERAL ENGINEERING COMPANY (RADCLIFFE) LIMITED

BALANCE SHEET

as at 31st March, 1968

30th November, 1966 £	*30th November, 1966* £		Note	£ Authorised	£ Issued
		Capital			
650,000		8,500,000 shares of 2s. each		£850,000	650,000
		Reserves			
	335,106	Share premium account		335,106	
	122,864	Property revaluation account	(5)	122,864	
	300,000	General reserve		300,000	
	403,488	Unappropriated profits		443,614	
1,161,458					1,201,584
1,811,458					1,851,584
		Current Liabilities			
	127,163	Bank overdraft	(6)	737,032	
	811,866	Creditors and accrued charges		802,310	
	36,522	Deposits on orders		320,007	
	315,500	Corporation Tax		141,000	
	50,507	Income Tax, Schedule F		3,910	
	146,250	Proposed Final dividend of 22½%		146,250	
1,487,808					2,150,509
£3,299,266					£4,002,093

30th November, 1966 £	*30th November, 1966* £		Note	£	£
		Fixed Assets	(7)		
		Land and buildings			
	470,538	Freehold		585,168	
	8,526	Long leasehold		5,778	
	776	Short leasehold		8,720	
479,840					599,666
238,930		Plant, equipment and motor vehicles			340,506
718,770					940,172
		Interest in subsidiaries	(8)		
	18,897	Shares at cost		18,175	
	245,868	Current accounts		18,290	
264,765					36,465
		Current Assets			
	1,227,597	Stock and work in progress	(9)	1,967,711	
	134,230	*less* progress receipts		350,935	
	1,093,367			1,616,776	
	1,218,029	Debtors (*less* doubtful debts)		1,404,225	
	3,368	Cash at bank and in hand		3,488	
	967	Unquoted investment at cost	(10)	967	
2,315,731					3,025,456
£3,299,266					£4,002,093

B. J. ALGAR
T. P. WHITWORTH } *Directors*

The Notes on page [353] form part of these Accounts.

THE GENERAL ENGINEERING COMPANY (RADCLIFFE) LIMITED AND SUBSIDIARY COMPANIES

NOTES TO ACCOUNTS

	Sixteen months to 31st March, 1968	*Year to 30th November, 1966*
	£	£
1 Interest Paid (less received) On bank overdrafts	31,405	*(13,577)*

2 Directors' Emoluments	Sixteen months to 31st March, 1968	*Year to 30th November 1966*
(*a*) The emoluments consist of:		
(1) Remuneration as executives	50,435	*52,527*
as directors	1,129	*950*
	51,564	*53,477*
(2) Pension contributions	1,607	*1,714*
	£53,171	*£55,191*
(*b*) *The emoluments of the Chairman were	£14,439	*£18,160*

(*c*) The figures shown under 2 (*a*) (1) were within the annual scales shown below:—

Scale	Number of Directors 1968	*1966*
£5,000–£7,500	4	*3*
£7,500–£10,000	1	*2*
£12,500–£15,000 (late chairman)	1	*—*
£17,500–£20,000	—	*1*

*The office of chairman was held by two directors during the period to 31st March, 1968, as a result of the death of Mr T. S. Dickinson in April 1967.

Emoluments were waived by six directors in the year to 30th November, 1966, in the total sum of £2,989.

3 Taxation

The charge for Corporation Tax, based on the profits of the sixteen months to date have been computed at the rate of 40 per cent. for the period to 31st March, 1967, and at 42½ per cent. for the remaining twelve months. (*1966 – 40 per cent.*).

4 Italian Company Accounts

(*a*) The charge in the accounts of General Engineering Italiana S.p.A. for depreciation was £1,141 (*previous year nil*); for audit fee £331 (*previous year nil*), and for bank interest £2,189 (*previous year nil*).

(*b*) The value of assets and liabilities of the overseas subsidiary company have been converted into sterling at the rate of exchange ruling on 31st March, 1968.

5 Property Revaluation Account

Included in this account is a realised surplus of £291 arising from the disposal of a house.

6 Bank Overdrafts

(*a*) The bank overdraft of the parent company, amounting to £737,032 is secured by a floating debenture on the assets of the company.

(*b*) The bank overdraft of the Italian subsidiary amounting to £30,571 is guaranteed by the parent company.

7 Fixed Assets

(*a*) Land and Buildings	Group Freehold	Group Long Leasehold	Group Short Leasehold	The General Engineering Company (Radcliffe) Limited Freehold	Long Leasehold	Short Leasehold
As at 1st December, 1966	496,245	11,369	12,090	496,245	11,369	1,000
	420,946	*11,369*	*11,500*	*420,946*	*11,369*	*1,000*
Additions in period	127,891	456	1,835	127,891	456	—
	75,416	*—*	*590*	*75,416*	*—*	*—*
Transfer from a subsidiary	—	—	—	—	—	11,090
	624,136	11,825	13,925	624,136	11,825	12,090
	496,362	*11,369*	*12,090*	*496,362*	*11,369*	*1,000*
Cost of disposals in period	—	3,569	—	—	3,569	—
	117	*—*	*—*	*117*	*—*	*—*
Investment grant	766	—	—	766	—	—
As at 31st March, 1968	£623,370	£8,256	£13,925	£623,370	£8,256	£12,090
	£496,245	*£11,369*	*£12,090*	*£496,245*	*£11,369*	*£1,000*
Analysis of balance:— Properties at independent valuation in 1961 (less disposals)	225,083	7,800	11,500	225,083	7,800	11,500
	225,083	*11,300*	*11,500*	*225,083*	*11,300*	*1,000*
Properties at cost	398,287	456	2,425	398,287	456	590
	271,162	*69*	*590*	*271,162*	*69*	*—*
	£623,370	£8,256	£13,925	£623,370	£8,256	£12,090
	£496,245	*£11,369*	*£12,090*	*£496,245*	*£11,369*	*£1,000*
Depreciation:— As at 1st December, 1966	25,707	2,843	2,592	25,707	2,843	224
	18,395	*2,274*	*2,009*	*18,395*	*2,274*	*176*
Amount provided during period	12,495	(365)	1,145	12,495	(365)	778
	7,312	*569*	*583*	*7,312*	*569*	*48*
Transfer from a subsidiary	—	—	—	—	—	2,368
	£38,202	£2,478	£3,737	£38,202	£2,478	£3,370
	£25,707	*£2,843*	*£2,592*	*£25,707*	*£2,843*	*£224*
Net Book Value As at 31st March, 1968	£585,168	£5,778	£10,188	£585,168	£5,778	£8,720
	£470,538	*£8,526*	*£9,498*	*£470,538*	*£8,526*	*£776*

(*b*) Other Assets	Group Plant Equipment and Motor Vehicles	The General Engineering Company (Radcliffe) Limited Plant Equipment and Motor Vehicles
Cost	£	£
As at 1st December, 1966	578,436	442,973
	423,712	*309,554*
Additions in period	151,496	147,366
	182,299	*159,136*
Transfer from a subsidiary	—	131,624
	729,932	721,963
	606,011	*468,690*
Cost of disposals in period	11,445	11,445
	9,787	*8,825*
Investment grants	20,800	20,800
	17,788	*16,892*
As at 31st March, 1968	£697,687	£689,718
	£578,436	*£442,973*
Depreciation		
As as 1st December, 1966	280,228	204,043
	239,726	*171,771*
Amount provided during period	75,454	74,513
	44,964	*36,350*
Transfer from a subsidiary	—	76,185
	355,682	354,741
	284,690	*208,121*
Amount eliminated in respect of disposals during period	5,529	5,529
	4,462	*4,078*
	£350,153	£349,212
	£200,228	*£201,043*
Net Book Value As at 31st March, 1968	£347,534	£340,506
	£298,208	*£238,930*

Plant at valuation in 1936 in the sum of £24,816 has been eliminated in the above figures against accumulated depreciation of prior years.

8 Interest in Subsidiaries

(*a*) The net balance on subsidiary companies' current accounts (£18,290) is arrived at by deducting the amount due to a subsidiary company (£4,930) from the amount due from a subsidiary company (£23,220).

(*b*) No provision has been made in the parent company's own accounts for the loss of £5,319 incurred by the Italian subsidiary.

(*c*) The subsidiary companies of the group are:—

Name of Subsidiary	Identity of class of shares held	Proportion of nominal value of issued capital held by The General Engineering Company (Radcliffe) Ltd or its nominees
(1) Genevac Ltd. (non-trading company)	shares	100%
(2) General Engineering Italiana S.p.A.	ordinary shares	100%
(3) Thin Film Components Ltd (non-trading company)	ordinary shares	100%

The first and third named companies are incorporated in England, and the second named in Italy.

9 Stock and Work in Progress

Stock is valued at the lower of cost or estimated realisable value. Work in progress is valued at cost, including an appropriate amount for overheads.

10 Unquoted Investment

(*a*) There is a contingent liability in respect of calls of 5s. per share on 1,350 £1 shares in The Radcliffe Room and Power Co. Ltd.

(*b*) The directors estimate the value of the unquoted investment to be £945 (*1966 – £945*).

11 Capital Commitments

Capital expenditure contracted for but not provided for in the consolidated balance sheet amounted to approximately £33,250 (*1966 – £135,000*) inclusive of £33,250 (*1966 – £132,700*) for the parent company.

12 Turnover

The turnover of the Group required to be stated in accordance with Schedule 2, Companies Act, 1967, was £4,133,146. This figure represents the selling value of work traded during the period.

13 So far as the Directors are aware the company is not a 'close company' as defined in the Finance Act, 1965.

14 The market value of the shares on 6th April, 1965 for purpose of Capital Gains Tax calculations was 6s 3d.

CITY NOTES

STILL displaying its remarkable aptitude for translating any and every event into terms of inflation and demand for equities, the stock-market has remained buoyant. At its present pitch, however, the equity market is becoming more and more prone to be the subject of trend forecasting and although it is emphasized that the current 'bull' market is, as yet, only the third longest in the post-war period, there is an uneasy feeling that it may not live to be the longest.

But this seems to be more of a feeling than an actuarial assessment if, in fact, there can ever be such a thing in the stock-market. Even the optimists seem only to be giving the rise another 10 to 15 points in *The Financial Times* Index terms, and since the index is already well over the 500 level, another 10 to 15 points is merely a final marginal adjustment.

Having forecast a 'top', however, the only reason that forecasters can at present produce for anticipating a later decline is that 'bull' markets cannot go on for ever. If inflationary trends continue and the fear of inflation plus weight of money both stay as strong as they are, then the mere fact that prices are high does not necessarily mean that prices will drop to any great degree.

The neutral forecasters of 'sideways' markets moving narrowly either way, are more numerous than those forecasting any further marked rise or any drastic drop.

* * * *

THE weight-of-money factor in the equity market has undoubtedly been potentially strengthened by The Prudential Assurance Company's launching of its 'Prutrust' equity-linked policy. In anticipation of the launching, Prudential put £1 million into equities during the course of one stock exchange account but that could prove small stuff if 'Prutrust' really catches on amongst Prudential's industrial and ordinary branch policy-holders. Quite apart from the stock-market aspect, the launching of 'Prutrust' presents unit-linked policy organizations with the biggest single piece of competition that has so far faced them. Naturally, existing managements are going through the motions of 'welcoming competition' although there is a deal of difference between just another competitor and one as strong as 'The Pru'.

* * * *

TAKE-OVER attempts have been responsible for many intriguing industrial developments but rarely so intriguing as the flight of English Electric into the arms of General Electric. The affair also led to a statement of policy and explanation from Plessey's financial advisers, S. G. Warburg, who in a lengthy document made it clear that advising an industrial client on a take-over problem of complication and possible industrial criticism, is not the easiest of tasks.

Warburg's statement was a shade cynically received in some quarters of the City but in this column's opinion, at least, the statement did attempt to put down the aspects that Warburg and Plessey were having to consider. It remains now to be seen whether the General-English merger will be allowed to go through, but it can be pretty safely assumed that but for the Plessey bid, the two companies would have considered rationalization and co-operation, rather than all-out merger as a method of collaboration.

* * * *

RATIFICATION of the sterling balances support operation at the Basle Central Bankers' meetings last week-end removed any lingering doubts there might have been about the operation. Like any other such operation, however, the sterling balances affair is no substitute for a strengthening of sterling via improved trade and balance of payment figures. If, in the next two months, there is no real and striking evidence of trade-figure improvement, sterling may well be in for another difficult winter.

RATES AND PRICES

Closing prices, Monday, September 9th, 1968

Tax Reserve Certificates: (28.8.68) Companies 4⅝%;
3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966	7%	Oct. 19, 1967	6%
Jan. 26, 1967	6½%	Nov. 9, 1967	6½%
Mar. 16, 1967	6%	Nov. 18, 1967.. ..	8%
May 4, 1967	5½%	Mar. 21, 1968.. ..	7½%

Treasury Bills

July 5 ..	£7	4*s*	9·73*d*%	Aug. 9 ..	£6	18*s*	6·27*d*%
July 12 ..	£7	3*s*	5·60*d*%	Aug. 16 ..	£6	18*s*	1·79*d*%
July 19 ..	£7	2*s*	5·25*d*%	Aug. 23 ..	£6	19*s*	0·42*d*%
July 26 ..	£7	1*s*	2·22*d*%	Aug. 30 ..	£6	18*s*	10·73*d*%
Aug. 2 ..	£7	0*s*	4·48*d*%	Sept. 6 ..	£6	18*s*	7·99*d*%

Money Rates

Day to day ..	5⅞–7%	*Bank Bills*	
7 days	5¾–7%	2 months ..	7⅜–7$\frac{7}{16}$%
Fine Trade Bills		3 months ..	7⅜–7$\frac{7}{16}$%
3 months ..	8½–9%	4 months ..	7⅜–7$\frac{7}{16}$%
4 months ..	8½–9¼%	6 months ..	7⅜–7$\frac{7}{16}$%
6 months ..	8¾–9½%		

Foreign Exchanges

New York	2·38$\frac{11}{16}$	Frankfurt ..	9·48⅝
Montreal	2·56	Milan	1486$\frac{11}{16}$
Amsterdam ..	8·67$\frac{5}{32}$	Oslo	17·04⅞
Brussels	119·92	Paris	11·89$\frac{9}{16}$
Copenhagen ..	17·93⅜	Zürich	10·27$\frac{5}{32}$

Gilt-edged

Consols 4% ..	52⅝	Funding 6% 1993	80⅞
Consols 2½% ..	33¼	Savings 3% 60–70 ..	91½
Conversion 3½% ..	45$\frac{15}{16}$	Savings 3% 65–75 ..	75¼
Conversion 5% 1971	93⅛	Treasury 6½% 1976	95$\frac{9}{16}$
Conversion 5¼% 1974	90½	Treasury 3½% 77–80	72½
Conversion 6% 1972	94⅞	Treasury 3½% 79–81	68$\frac{13}{16}$
Funding 3½% 99–04	52$\frac{3}{16}$	Treasury 5% 86–89	72$\frac{1}{16}$xd
Funding 4% 60–90	96$\frac{1}{16}$	Treasury 5½% 08–12	73$\frac{3}{16}$
Funding 5¼% 78–80	82¾	Treasury 2½% ..	32$\frac{11}{16}$
Funding 5½% 82–84	81⅜	Victory 4%	97½
Funding 5¾% 87–91	78¾	War Loan 3½% ..	46$\frac{15}{16}$

Reviews

Consolidated Balance Sheet Values and Other Contentious Matters

by B. J. S. WIMBLE, C.A.(S.A.), F.S.A.A.

Juta & Co Ltd, Cape Town, South Africa. 30*s*.

Readers with long memories may recall the International Congress on Accounting 1952 in London and Mr Wimble's paper on fluctuating price levels, subsequently reproduced in *The Accountant*. This book comprises, in fact, a kind of symposium of Mr Wimble's writings, mainly (as the title suggests) on the subject of consolidated accounts.

The author certainly poses some interesting ideas on this main subject, including a most entrancing suggestion that the consolidated balance sheet should reflect a partnership view, i.e. the partnership between the parent company's shareholders and the minority shareholders in the subsidiaries. While this may show a truer view for the combined shareholders, it is arguable that the purpose of a consolidated balance sheet is to show a picture to the shareholders of the parent company (or, for internal purposes, the parent company directors).

However, in all the various points considered there is much food for thought. Inter-company transactions and profits reflected in group accounts are well worth studying again and Mr Wimble's thoughts are sensible and provoking, even though consolidated accounts are not really so perverse or complicated as we tend in our stumbling way to make them.

Of particular interest, in view of the new legislation in Britain, is the concluding chapter of the book on the auditor's duty relating to contracts in which directors are interested.

Statistical Techniques in Technological Research

by W. E. DUCKWORTH.

Methuen & Co Ltd, London. 84*s*.

Many readers of this journal will already be familiar with Mr Duckworth's excellent introductory text to operational research and it may be as well to inform them at the outset that this new work is, generally speaking, at a similar level. Mr Duckworth writes well and clearly, taking his readers from the most elementary statistical techniques used for summarizing frequency distributions, via simple examples of standard errors of means to simple tests of significance. From there he develops the ideas underlying factorial design and its application to industrial testing. At this stage there is a danger that the author and the average reader will begin to part company but, if the reader can keep pace, he is introduced to the analysis of variance, Latin Squares and more experimental design.

The book is intended for the young industrial scientist, research managers and teachers of science and technology students. But it should also be of interest to the younger industrial accountant working for his Certificate in Management Information.

Planning Next Year's Profits

by DALE D. MCCONKEY

American Management Association, New York. $6.75.
Bailey Bros & Swinfen Ltd, Folkestone, Kent. 64*s*.

In this book the author, well-known as a management consultant and a regular lecturer at business schools in America, sets out his interesting thesis on what is clearly for him a pet topic – the superiority of planning profits over budgeting. He sees budgets as based on the false assumptions of yesterday and budgetary control as a misnomer, and he regards much of the standard costing and other well-used systems of control as shibboleths.

It has to be admitted that there is a good deal of commonsense in his views. Adopting last year's figures as an uncriticized basis for next year's performance *is* absurd. Indeed, standard costs are supposed to set performance standards higher – the problem most of us find difficult to solve, however, is how much higher we should – and can – aim.

This is a book which may be picked up in an odd moment. Its illustrations are witty but never untrue, and it can be commended to accountants in commerce or industry to remind them of fundamentals. Tests of reasonableness, participation by executives and the building of a profit plan are included, and the part to be played by the chief executive is delicately traced.

Mr McConkey divides businesses into 'pussycats', 'fat cats' and 'tigers', and makes it quite clear that the tiger is the prize animal.

Stockbroking Today

by J. DUNDAS HAMILTON

Macmillan & Co Ltd, London. 55*s*.

The primary purpose of this book is to provide a background to the profession of stockbroking – not so much for the investor but rather for the student who may be considering stockbroking as a career. The author himself is a leading member of that profession having, in his own words, started as a clerk almost 21 years ago in a small firm of stockbrokers and whose experience has ranged over all sizes of office.

It would, however, be a pity if the readership of this book should be restricted to prospective stockbrokers. Much of it is certainly detailed in its description of all facets of the broker's business, but the author has not spent his working life as a stockbroker without having something positive to say. His discussion, for instance, on the advantages and disadvantages and the problems of a private company going public is worth-while reading for both the business man and student.

The Institute of Chartered Accountants of Scotland

Sixteenth Summer School

THE Sixteenth Summer School of The Institute of Chartered Accountants of Scotland at the University of St Andrews concluded on Tuesday. Ninety-one members of the Institute took part and those attending also included Professor Edward Stamp, M.A., C.A.(ONT.), A.R.A.N.Z., A.I.A.N.Z., Mr Murray Henshall, B.C.A.(HONS.), B.COM., A.R.A.N.Z., A.I.A.N.Z., Travelling Scholar, The Incorporated Institute of Accountants of New Zealand, Mr I. G. S. Groundwater, Secretary of the Joint Diploma Board in Management Accounting Services, and six members of The Institute of Chartered Accountants in England and Wales, including one member of Council, Mr John F. Allan, F.C.A.

In his foreword to the programme booklet the President of the Scottish Institute, Mr John A. Stewart, C.A., commented that 'The papers submitted this year cover a mixed bag of topics but the common theme is the need to challenge present practices and to progress and propound new ideas.' This view was borne out as the school progressed.

The proceedings began with a talk before dinner on Friday of last week on 'Problems of Organization and Management in a Scottish New Town' by Mr Dennis Kirby, M.V.O., M.B.E., general manager of Irvine Development Corporation. Not only did this prove interesting and informative but it also provided a very appropriate curtain-raiser for what was to follow, as much of Mr Kirby's material was directly relevant to the responsibilities of accountants in management and financial planning.

Some of Mr Kirby's observations on particular points, incidentally, evoked wry smiles from his audience – for example, 'low rents mean slums'; and few present would have disagreed with his opinion that when engaging a building contractor, it is dangerous to assume that the lowest tender is the most economical.

Saturday's paper entitled 'Management Audit' was presented by Mr E. J. Baden, M.A., C.A., A.T.I.I., with Sir William Slimmings, C.B.E., C.A., in the chair. Mr Baden put forward a case for carrying out, first, an 'operational audit' which he envisaged as an examination of the efficiency or otherwise of a company's use of resources, including personnel, followed by a report to management with a view to maintaining and improving its standards; and then a 'policy audit', comprising a review of decision-taking procedures and their effects – past, present and potential – with a report to shareholders.

In the UK there has as yet been little discussion of such an extension of the audit function but some of Mr Baden's suggestions and comments provoked much comment among members of the school, both within the discussion groups and at the plenary sessions later in the day. As was to be expected, wide variations in opinion emerged – not so much with reference to the 'operational audit', which had much in common with some of the advisory services already provided by many practitioners to their clients – but certainly as regards the 'policy audit', the desirability and, in particular, the feasibility of which were clearly felt to be seriously in doubt.

On Sunday, after morning service in the Collegiate Church of St Salvador conducted by the Rev. Ian M. Paterson, M.A., Minister of Hope Park Church, St Andrews, Mr J. T. H. Macnair, M.C., M.A., C.A., introduced the accounting research study on 'The Valuation of Stock and Work in Progress' prepared by the Institute's Research and Publications Committee published last January. The subject-matter is, of course, of fundamental importance to all accountants in whatever form of activity they may be engaged, and the fact that its presentation was in Mr Macnair's hands made doubly sure of a successful session, which in fact ensued.

On Monday, in a paper by Professor J. R. Small, B.SC.(ECON.), F.A.C.C.A., F.C.W.A., J.DIP.M.A., on 'The Evaluation of Risk and Uncertainty', there was an exhortation to accountants to utilize simple statistical techniques – this time for the purpose of improving the efficiency of investment decision-taking. Older members of the school were observed to show some signs of dispondency, if not alarm, at this stage but they were perhaps fortified by the knowledge that the Institute's tutorial classes in business mathematics for apprentices under the new training syllabus begin this month.

A non-technical session took place after dinner on Friday, when the Secretary of the Institute, Mr E. H. V. McDougall, gave a talk on 'The Work of the Institute's Staff'. This was timely and gave a good deal of food for thought to those whose knowledge of the activities and responsibilities involved is purely superficial. Among other things, he reminded his audience – appropriately at the present time – that 'democracy is not cheap'.

At the official dinner on Monday evening the guest of honour was Mr T. T. Fordyce, Provost of St Andrews. The golf competition for the Summer School Trophy was played on Monday afternoon and a light-hearted treasure hunt was arranged for the Saturday and Sunday afternoons.

As ever, St Andrews University did the school proud.

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Notes and Notices

PROPOSED INTEGRATION SCHEME

Next Week's Meetings

Council members of The Institute of Municipal Treasurers and Accountants will be present at the following local meetings to be held next week, when the proposals for the integration scheme will be discussed:

Wednesday:
Metropolitan and Home Counties, SE. Associates, Cavell House, Charing Cross Road, London WC2, 2 p.m.
North Western, Southern Section, Chester, 10.30 a.m.

Thursday:
Midland Branch, Birmingham, 2 p.m.
South Wales and West of England Branch, Bristol, 11.15 a.m.

PROFESSIONAL NOTICES

Messrs J. Douglas Henderson & Co, Chartered Accountants, of 44 Melville Street, Edinburgh 3, announce that Mr Robert McCrindle Manson, C.A., who has been a member of their staff for several years, has been assumed as a partner with effect from September 1st, 1968.

Messrs Jackson, Pixley & Co, Chartered Accountants, announce that Mr Douglas W. Gibson, F.C.A., retired from the partnership on August 31st, 1968, in order to take up a commercial appointment. He will remain available for consultation.

Messrs Wenham, Major & Clarke, Chartered Accountants, announce that Mr K. J. Foster, B.A., A.C.A., has joined the firm as a partner with effect from September 1st, 1968. They also announce that Mr R. Gaukroger, F.C.A., at present practising in partnership with Mr H. R. Sewell, F.C.A., under the style of Howle, Sewell & Neep will join Wenham, Major & Clarke on October 1st, 1968. He will also continue in partnership with Mr Sewell until December 31st, 1968, when Mr Sewell intends to retire and the firm of Howle, Sewell & Neep will merge with Wenham, Major & Clarke, the joint practice being carried on under the latter name from 89 Cornwall Street, Birmingham 3 and at London and Walsall.

APPOINTMENTS

Mr E. J. Aaronson, F.C.A., has been appointed deputy chairman of Steel Barrell Scammels and Associated Engineers Ltd. He has relinquished his duties as executive director of the company.

Mr John P. Clark, F.C.A., has been appointed to the board of directors of Urwick, Orr & Partners International Ltd. Mr Clark was previously director of the Urwick Management Centre.

Mr John P. Clark

Mr James R. Porter

Mr James R. Porter, F.C.A., controller of Mobil Europe Inc., has been elected chairman of Mobil Data Services Ltd.

Mr W. W. Bigg, F.C.A., has been appointed chairman of Salisburys (Holdings) Ltd.

Mr A. J. R. Coward, F.C.A., has been appointed a director of London Brick Co Ltd.

Mr J. Higson, F.C.A., has been appointed secretary of Provident Clothing & Supply Co Ltd.

Mr N. Hinton, F.C.A., has been elected chairman of Tar Residuals Ltd.

Mr W. G. Melrose, M.C., C.A., has been appointed a director of Shell International Marine Ltd.

Mr Charles F. M. Rawlinson, M.A., A.C.A., has been appointed to the board of Navan Carpets Ltd as a non-executive director.

DOUBLE TAXATION – LESOTHO

The agreement amending the arrangement made with Basutoland in 1949, as subsequently continued in force with Lesotho, was published on August 30th as a schedule to a draft Order in Council.

POST OFFICE REGISTER OF GOVERNMENT STOCK

The Treasury has announced that as from September 10th, the following stocks will be added to the Post Office Register of Government Stock, in accordance with section 1 of the National Debt Act 1958: 6¾ per cent Exchequer Loan 1971; 6¾ per cent Exchequer Stock 1973; and 6¾ per cent Treasury Loan 1995–98.

LONDON AND DISTRICT SOCIETY OF CHARTERED ACCOUNTANTS

An interesting and varied series of courses, conferences, luncheons and general meetings has been arranged by the London and District Society of Chartered Accountants for its 1968–69 session.

Next week, from September 17th to 20th, the first of 13 non-residential courses takes place at the London Graduate School of Business Studies on 'Structure and information for managerial control'. Subjects of the other non-residential courses – all in London at various venues – will include 'Statistical sampling' (six evening meetings ending with a two-day course); 'Tax and company decisions'; 'The Companies Act 1967'; 'Capital gains tax'; 'Practical problems in auditing computers'; and 'Taxation of interests in land'.

Three residential conferences will be held – two at Eastbourne and one in Brighton. The first will be on 'Auditing', at the Grand Hotel, Eastbourne, from November 7th to 9th. The second will take place at the Hotel Metropole, Brighton, on 'The use of settlements in tax planning' (November 21st to 23rd). The second Eastbourne course, also at the Grand Hotel, will be on 'The close company and its members' (March 6th to 8th).

Evening meetings, all to be held at the Little Ship Club, Bell Wharf Lane, Upper Thames Street, London EC4, commence on October 10th with an address on the 1968 Finance Act. Other meetings will include 'The problems of the Companies Act 1967'; 'Ethics of tax practice'; and 'Practical use of critical path analysis applied to the preparation of annual accounts and audit'. A number of joint meetings will be held during the session, the first of which will be a one-day meeting with the Holborn Law Society at the Law Society's Hall, Chancery Lane, London WC1, on October 12th when subjects will be 'A man and his family', and 'A man and his company'.

The Society's luncheon meetings at the Connaught Rooms, Great Queen Street, London WC2, are always well attended and the eminent speakers this year will be Sir Edmund Compton, K.C.B., K.B.E., Parliamentary Commissioner for Administration ('Ombudsman'), who will address the first meeting on October 22nd; Sir Eric Roll, K.C.M.G., C.B., director, S. G. Warburg & Co Ltd, and formerly Under-Secretary of State, Department of Economic Affairs; Mr Paul Bareau, recently editor of *The Statist*, and Mr Iain Macleod, P.C., M.P.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND

Residential Courses

During October and November The Institute of Chartered Accountants of Scotland are to hold courses on computers, current taxation, and flow-charting and analytical auditing in its series of post-qualifying education courses.

The first course, which will be held in Glasgow, London and Edinburgh, will take the form of an introduction to computers and automatic data processing through lectures, discussions, a practical exercise in the preparation of flow-charts, and the writing of a simple program. There will also be a visit to a computer installation during which the program written by participants will be run.

The course on current taxation, which is a residential one, will be held at the Station Hotel, Perth, from October 23rd to 24th. A major part of the course will take the form of lectures and case studies of capital gains tax and corporation tax. There will also be a session devoted to the 1968 Finance Act with particular reference to the special charge.

In London, on October 26th, the course on flow-charting and analytical auditing will take place, when the recognized methods of recording internal control systems will be reviewed and instructions given on the techniques of recording such systems by the preparation of flow-charts. The object of the course will be to stimulate interest in a new approach to the transactions audit and to examine its advantages over existing methods.

The courses are open to all members of the Institute, members of kindred accountancy bodies and also to non-accountants nominated by members of the Institute. Further particulars are available from the Director of Post-Qualifying Education, The Institute of Chartered Accountants of Scotland, 27 Queen Street, Edinburgh 2.

LIVERPOOL SOCIETY OF CHARTERED ACCOUNTANTS

The Liverpool Society of Chartered Accountants commences its 1968–69 programme on the afternoon of October 7th at the Society's Library, 5 Fenwick Street, Liverpool 2, with a half-day course on betterment levy and its relationship with capital gains tax, corporation tax, and income tax. The speaker will be Mr J. P. Hardman, A.C.A., who will cover the principal points of the subject as far as they affect the practising accountant.

The fee for the course is 10*s* and applications to attend should be sent by October 2nd, to the Society's secretary at the above address.

THE CHARTERED ACCOUNTANT STUDENTS' SOCIETY OF LONDON

Annual General Meeting

The annual general meeting of The Chartered Accountant Students' Society of London will be held in Winchester House, 77 London Wall, London EC2, on Tuesday, October 15th, at 6 p.m.

Any member of the Society entitled to attend and vote at a meeting of the Society is entitled to appoint another person (who must be a member) as his proxy to attend and vote instead of him, provided that no member present at the meeting holds proxies for more than three members. The appointment of a proxy has to be in writing, signed by the appointor, and must be received by the Secretary not less than 24 hours before the advertised time for the start of the meeting.

Proxy forms may be obtained from the Library and must be lodged by 6 p.m. on Monday, October 14th.

INSTITUTE OF INTERNAL AUDITORS

London Chapter

At a luncheon meeting of the London Chapter on Wednesday next, September 18th, at the Hotel Rembrandt, a talk will be given by Mr Stephen Elkington, F.C.A., general auditor of the Ford Motor Co of Britain, on 'Stock Control and Profitability'. Anyone wishing to attend this lunch and talk should contact the Hon. Secretary of the Chapter, Mr R. P. Wylde, F.C.A., Iraq Petroleum Co Ltd, 33 Cavendish Square, London W1.

MANAGEMENT TECHNIQUES WEEK

A conference running from midday on Monday, September 30th, to midday on Friday, October 4th, is being held at the Royal Lancaster Hotel, London, by the British Institute of Management on aspects of management techniques. Series tickets will be issued for the week, but companies can nominate a different executive to attend each session if desired.

Among the sessions of particular interest to accountants will be those on 'Capital investment', 'Revenue expenditure control' and 'Balancing capacity and sales for a higher return on capital'. Applications to attend should be addressed to the Conference Manager, BIM, Management House, Parker Street, London WC2.

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ASSOCIATION OF LECTURERS IN ACCOUNTANCY

Week-end Conference

'Accounting education – the requirements of industry' will be the theme of a week-end conference to be held by The Association of Lecturers in Accountancy from Friday evening November 1st, to Saturday evening, November 2nd, at the Ivanhoe Hotel, Bloomsbury Street, London WC1.

The conference will be opened by Mr H. J. Harvey, F.A.C.C.A., Chairman of The Association of Lecturers in Accountancy. The first paper, 'The problem posed – the training and education of accountants – what industry requires', will be presented by Mr W. E. Allen, F.C.A., deputy chief accountant, Imperial Chemical Industries Ltd, Dyestuffs Division. Mr Halmer Hudson, F.C.A., will serve as chairman of the session. 'A review of the part the educational system should contribute', by Mr W. D. Ashcroft, F.C.A., A.C.W.A., finance director, Colt Ventilation and Heating Ltd, will be the title of the paper to be presented on Saturday morning. This session will be under the chairmanship of Mr M. J. D. Morris, M.A.(OXON.), training superintendent, BOAC. Mr W. M. Allen, T.D., B.A., LL.B., Under-Secretary, The Institute of Chartered Accountants in England and Wales will be chairman of the third session when a paper on 'Towards an answer – how best to equate industry's requirements with educational facilities', will be given by Mr D. R. Peters, J.P., B.A., DIP.ED., M.B.I.M., F.R.G.S., Vice-Principal, Slough College of Technology.

Enrolment forms for the conference are available from Mr E. C. D. Evans, B.SC.(ECON.), F.A.C.C.A., Director of Accountancy Studies. Slough College of Technology, William Street, Slough, Bucks.

The Institute of Chartered Accountants in Ireland

Successful Candidates at Summer 1968 Examinations

PART III

Adams, N. J., Dublin (R. S. Baskin)
Allen, E. J. F., Belfast (N. Stewart)
Allen, J., Greenisland, Co. Antrim (A. L. Boyd)
Andrews, C. A., Belfast (T. D. Lorimer)
Andrews, J. C., Dublin (L. J. Mooney)

Barry, D. C., Dublin (T. M. Linnane)
Beck, D. L. W., Dublin (Gordan Buttanshaw)
Bolger, R. J., Dublin (D. J. Kennedy)
Bradish, B., Multyfarnham, Co. Westmeath (H. C. Fletcher)
Bradshaw, B. M., Limerick (T. A. Duffy)
Brady, J. A., Dublin (J. K. Deevy)
Brearley, F., Enniscorthy, Co. Wexford (S. O. Forster)
Breheny, J. P., Dublin (Edward Keegan)
Burke, C. M., Dublin (K. J. O'Reilly)
Butler, A. D., Dublin (J. K. Woods)
Butler, F. D., Dublin (J. P. Corcoran)
Byrne, J. H., Dublin (Mrs M. Downes)

Cahill, B., Dublin (J. A. Carney)
Carroll, E. R., Dublin (J. P. McKeon)
Carson, J. G., Belfast (S. L. Little)
Clark, G. J. A., Dublin (C. G. Walker)
Clarkin, P. A., Dublin (Kevin Briscoe)
Coghlan, K. M., Dublin (C. W. Chambers)
Cohen, M. E., Dublin (D. Collins)
Connolly, F. J., Dublin (B. P. Devine)
Cunningham, P. R. D., Dublin (Brian Nally)

Delahunty, T. N., Waterford (M. K. Brazil)
Dillon, D. G., Dublin (S. P. Sheehan)
Donnelly, J. A., Dublin (Kenneth McQuillan)
Duggan, S. P., Dublin (F. Smithwick)
Duncan, Miss P. L., Belfast (Geoffrey Knox)
Dungan, R. N., Dublin (Mrs M. Downes)
Dunne, J. A., Dublin (F. N. Kelly)
Durie, R. J., Dublin (C. J. Dalton)

Egan, Miss F., Dublin (G. L. M. Wheeler)
Evans, F. B., Dublin (Alan Molony)

Fitzgerald, G. D., Dublin (Sean MacGoey)
Fleming, O. L., Dublin (J. F. Brown)
Fletcher, J. G., Mullingar, Co. Westmeath (H. C. Fletcher)
Flynn, P. A., Belfast (G. D. Bustard)
Forde, T. M., Dublin (William Sandys)
Fox, T. P., Dublin (J. F. Walsh)
French, F. G., Belfast (A. S. Courtney)
Fullam, R. G. G., Dublin (J. A. Milliken)

Gallagher, P. F. G., Dublin (T. J. Chamberlain)
Gallaugher, J. D. A., Bangor, Co. Down (J. D. Jordan)
Garvey, Miss M., Holywood, Co. Down (J. A. Petticrew)
Glynn, D. K., Dublin (C. J. Gilgunn)
Graham, E. W., Portadown, Co. Armagh (N. G. White)
Gray, D. J., Dublin (M. P. Cremin)

Hamilton, W. K., Belfast (H. G. Brown)
Hanna, P. J., Belfast (E. W. McDowell)
Hanrahan, M., New Ross, Co. Wexford (A. F. Kelly)
Haslam, D. J., Nenagh, Co. Tipperary (J. C. Story)
Hayden, B. E., Dublin (J. R. Morton)
Henderson, E., Dublin (H. V. Owens)
Herlihy, B., Greystones, Co. Wicklow (W. J. McMahon)
Hogan, N., Dublin (J. D. Traynor)
Hosford, H. I., Dublin (G. W. O'Brien)
Hughes, T. H., Belfast (John Ross)

Johnston, D. W., Dublin (M. A. Cole)
Johnston, K. W., Dublin (R. W. Newport)

Kealy, M. J., Dublin (Brian Nally)
Kelleher, J. C., Limerick (W. H. O'Donnell)
Kernaghan, P. J., Belfast (J. P. Convery)
Kiernan, J. B. F., Dublin (E. J. Hayes)
Kilfeather, B. T., Sligo (C. K. East)
Kinnane, G. P., Bruff, Co. Limerick (P. O. Coffey)
Kirwan, L. T., Wexford (A. F. Kelly)

Latchford, R. F., Dublin (A. K. Burns)
Leow, W. K., Belfast (G. B. Duffin)
Leydon, P. G., Ballinfull, Co. Sligo (Francis Hamilton)
Lynch, V. P., Dublin (Kenneth McQuillan)

McAteer, E. F., Dublin (M. F. Davitt)
McBride, J. P., Omagh, Co. Tyrone (Terence O'Reilly)
McCance, B. M., Belfast (Third Place) D. McD. Foster)
McClay, A. J. W., Belfast (W. L. McClay)
McElvaney, P. J., Dublin (J. R. Morton)
McEvoy, P. V., Waterford (C. N. Baker)
McGlynn, C. J., Dublin (Conor Ryan)
McGovern, E. F., Drogheda, Co. Louth (D. J. O'Connor)
McMahon, J. B., Limerick (P. J. McGuigan)
McNally, J., Ballymena, Co. Antrim (D. T. Carson)
McParland, T. J., Dublin (J. R. Phelan)
McQuoid, I. S., Belfast (C. H. Adams)
Magill, J. F. P., Belfast (R. E. McClure)
Mahon, M. A., Dublin (Declan Power)
Massey, D. H., Dublin (B. P. Devine)
Millar, G., Belfast (J. B. Hutcheson)
Mooney, L. J., Dublin (D. F. Collins)
Moor, M. P., Dublin (J. A. Milliken)
Mulholland, J., Dublin (Niall O'Connor)

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Murphy, J. W., Dublin (D. McC. Watson)

Neill, J., Belfast (N. G. White)
Nolan, V. J., Dublin (M. N. Sheehan)

O'Carroll, G. N., Dublin (J. P. Lyons)
O'Donnell, A. F., Dublin (R. G. Walsh)
O'Dowd, B. G., Dublin (D. J. Fay)
Oluwa, M. O. A., Dublin (J. F. Storey)
O'Sullivan, B., Dublin (P. F. Shortall)

Power, D. H., Dublin (James Russell)

Quigley, D. M., London (Thomas Kenny)

Redmond, B. P., Dublin (Maurice Tempany)
Redmond, P. A. P., Dublin (J. J. Bastow)
Robb, K. P., Belfast (R. E. McClure)
Russell, C. A., Dublin (Second Place) (F. Smithwick)
Russell, J. P., Dublin (J. R. Morton)
Ryan, F. W. F., Dublin (Miss B. C. Murray)
Ryan, P. E. M., Dublin (John Donnelly)

Sadlier, T. F., Dublin (J. K. Woods)
Sharkey, N. D., Derry (P. K. O'Doherty)
Sheahan, P. V., Dublin (W. B. Lyster)
Sheeran, P. A., Dublin (Miss B. C. Murray)
Sinnott, M. J. G., Dublin (M. F. Quinn)
Smith, H. C. C., Belfast (First Place and the Arthur H. Muir Memorial Prize) (W. M. Carson)
Smith, P. V., Dublin (J. L. Kealy)
Soden, G. A. M., Dublin (V. C. Crowley)
Soden, J. M., Rosses Point, Co. Sligo (D. P. Gilroy)
Steele, A. E., Larne, Co. Antrim (C. W. H. Cowan)
Stewart, A. J. T., Belfast (G. Stewart)
Stirling, R. D., Ballyclare, Co. Antrim (J. E. Rusk)
Sullivan, B. P., Cork (J. A. O'Connell)

Tierney, C. P., Knockcroghery, Co. Roscommon (P. Russell)
Tonge, K. J. M., Dublin (H. L. McKee)
Totton, B., Belfast (A. N. Lovesy)

Van Cauwelaert, P. L., Dublin (W. P. Rhatigan)

Watters, J. B., Navan, Co. Meath (Martin Casey)
Westmacott, K. L., Dublin (W. F. Woodworth)
Witham, J. C., Dublin (W. McMahon)
Wood, A. M., Dublin (T. W. Davies)

113 candidates failed to satisfy the examiners

PART IV

Aitken, H. E. D., Carrickfergus, Co. Antrim (W. H. de F. Smyth)

Barrett, V. F. J., Dublin (E. J. Hayes)
Boland, P. G., Mungret, Co. Limerick (Dermot Fitzgerald)
Bolton, R., Bangor, Co. Down (H. J. Gibson)
Bourke, E. J. P., Dublin (K. J. O'Reilly)
Boyle, J., Dublin (First Place and the Samuel Smyth Memorial Prize) (M. J. Ryan)
Bridgeman, D. M., Foynes, Co. Limerick (J. B. Gubbins)
Browne, M. P., Dublin (R. A. Brophy)
Bryan, N. J., Dublin (J. C. Magowan)

Caffrey, D. J., Dublin (E. A. Forster)
Cameron, G. A., Belfast (J. E. Rusk)
Carthy, C. A. M., Ballinrobe, Co. Mayo (S. L. Morris)
Clarke, J., Belfast (J. T. Montgomery)
Concannon, M., Galway (C. J. Gilgunn)
Conran, J. J., Waterford (J. K. Deevy)
Cormican, J. P., Clarenbridge, Co. Galway (J. F. Fitzgerald)
Cotterell, A. P. M., Dublin (F. Smithwick)
Coveney, D. J., Dublin (D. J. Coveney)
Cullen, C. J., Dublin (D. Beirne)

Dalzell, W. B., Belfast (I. D. Crawford)
Dolan, M. J., Dublin (D. G. Mehigan)
Doody, M. D., Dublin (E. D. Reynolds)
Doris, J. D., Dublin (N. V. O'Neill)
Doyle, B. J., Wexford (D. C. Ferguson)
Doyle, J. A. A., Dublin (J. C. Story)
Dunlevy, R. A., Dublin (Kenneth McQuillan)

Eason, B. F., Fermoy, Co. Cork (J. P. Barrett)
Egan, J. R., Dublin (C. F. Smith)
Epstein, R., Dublin (M. S. Lynn)

Farrell, G. G., Dublin (D. Pearson)
Farrell, L. H., Dublin (D. P. Flinn)
Farrelly, S. P., Dublin (Maurice Sheehan)
Forde, T. W. W., Bangor, Co. Down (E. H. McAfee)

Gaw, W. D., Belfast (H. Quin)
Geraghty, P. P., Limerick (P. J. McGuigan)
Gibson, J. H. N., Belfast (George Stewart)
Gill, T. G., Belfast (S. H. Boyle)
Gilmore, B. P., Dublin (J. J. Bastow)
Gleeson, P., Dublin (E. D. Reynolds)

Hall, W. A., Belfast (G. E. Cameron)
Halley, W. W. P., Tramore, Co. Waterford (E. Halley)
Hanly, H. A., Collooney, Co. Sligo (J. Charleton)

Jackson, J. W. R., Dublin (Third Place) (K. J. O'Reilly)

Keane, N. J., Cobh, Co. Cork (W. A. Foley)
Kennedy, P. A., Dublin (Mrs M. Downes)
King, B. T., Dublin (C. J. Gilgunn)

Levin, T. D., Dublin (D. O'Connor)
Logan, P., Greyabbey, Co. Down (H. McMillan)
Lynchehaun, J. D., Newry, Co. Down (L. Kearney)

McClelland, E. M., Larne, Co. Antrim (E. McMurtry)
McCormack, J. J., Kilcock, Co. Kildare (N. L. Fox)
McNabola, J. P., Dublin (M. S. Lynn)
McNally, S. O., Dublin (Second Place) (Maurice Davitt)
Masterson, F. A. A., Dublin (E. J. Keegan)
Mathews, T. S., Dublin (D. Pearson)
Mooney, D., Belfast (B. A. Courtney)
Murray, J. S., Belfast (F. C. Shaw)

Naismith, W. P., Dublin (W. G. Armstrong)
Newman, A. J., Dublin (J. F. Storey)

O'Boyle, D. J., Dublin (C. W. Chambers)
O'Brien, F. J. I., Dublin (Alan Molony)
O'Cearbhaill, P. D., Dublin (M. J. Ryan)
O'Connor, P. V., Limerick (G. N. Power)
O'Keeffe, C. T., Dublin (W. P. Rhatigan)
O'Riordan, J. J., Dublin (D. C. Power)
O'Rourke, T. G., Dublin (R. W. Newport)
Osborne, J. C. B., Newtownabbey, Co. Antrim (James Ross)

Power, J. S., Dublin (M. F. Quinn)

Quin, T. H. B., Stockport (H. Quin)

Reed, S. R., Belfast (G. D. Bustard)
Rodgers, P. J., Limerick (T. A. Duffy)
Ryan, K. I., Dublin (K. J. O'Reilly)

Singleton, B. J., Belfast (N. G. White)
Smith, G., Dublin (P. G. Butler)
Smith, M. M., Dublin (A. J. Spain)
Stephenson, E. F., Dublin (A. E. Dawson)

Taylor, E. G., Belfast (H. G. Wilson)

Walsh, B. G., Dublin (E. A. Halley)
Walsh, D. A., Cork (H. J. Daly)

156 candidates failed to satisfy the examiners

PART V

Anderson, H. F., Bangor, Co. Down (William Brown)

Bolger, A. N., Dublin (P. H. Grant)
Bourke, T. P. M., Limerick (E. J. Hopkins)
Burrows, G. R. W., Dublin (N. E. Judge)
Byrne, M. E., Dublin (M. Willis Murphy)

Callaghan, R. D., Cork (J. A. Pollock)
Clinton, M. M. G., Dublin (G. W. O'Brien)
Coleman, V., Belfast (H. V. Kirk)
Colvin, G. R., Belfast (C. H. Adams)
Cousins, J. M., Dublin (Patrick Griffin)
Craig, D. G., Dublin (G. Buttanshaw)
Creedon, P. M., Dublin (D. McC. Watson)

De Groot, E. J., Dublin (Miss A. Macnamara)
Doddy, J. P., Dublin (J. K. Woods)
Dolan, J. V. A., Dublin (J. C. Story)
Dyer, B. D. E., Belfast (E. H. McAfee)

Fitzgerald, V. E., Dublin (Miss A. Neary)

Gallagher, A. J., Dublin (P. J. Blanc)
Gallagher, H. A., Dublin (R. A. Dempsey)
Geraghty, M. W., Newbridge, Co. Kildare (A. O'Beollain)
Gilmore, J. J., Belfast (G. D. Bustard)
Gray, M. A., Dublin (J. J. Bastow)

Harris, W. R., Dublin (A. J. Spain)
Hayden, N. T., Essex (P. H. Grant)
Hickey, M. J., Dublin (H. V. Owens)
Holland, A. T., Dublin (J. C. Oakes)

Jackson, W. E., Belfast (J. D. Jordan)

Kelly, B. S., Dublin (P. Monahan)
Kelly, F. N. A., Waterford (Second Place) (A. F. Kelly)
Kilcoyne, P. P., Dublin (A. J. Spain)

Lynch, C. J., Dublin (P. J. McCleary)

MacDonald, B., Belfast (E. W. McDowell)
McEvoy, G. A., Dublin (First Place and the Incorporated Society Jubilee Prize) (D. N. Rowe)
Mahon, J. L., Dublin (James Malone)
Mahony, M. B., Cork (J. A. O'Connell)
Martin, R. S., Belfast (T. L. Howard)
Moran, B. M., Dublin (Kevin Briscoe)

Nathan, V. F., Cork (John Kirby)

O'Connor, D. F., Dublin (I. K. Ryan)
O'Reilly, D. J., Dublin (Niall Crowley)

Peelo, D. A., Dublin (R. A. Kidney)
Phillips, P. E., Dublin (T. F. Phillips)

Ryan, P. A., Dublin (Third Place) (Kevin Briscoe)

Shaw, P. F., Belfast (T. F. E. Donnelly)
Smyth, P. D., Newbridge, Co. Kildare (R. Finlay-Mulligan)
Sproule, I. T. B., Bangor, Co. Down (J. H. Andrews)
Stewart, R. W., Limerick (P. O. Coffey)

Thompson, J. H., Londonderry (S. L. Little)

Wrixon, R. M., Cork (W. A. Foley)

157 candidates failed to satisfy the examiners

The Institute of Cost and Works Accountants

Results of Examinations held in May 1968

PART IV

First Place and The Leverhulme Prize: Beattie, D. W., Birmingham

Abid, A. K. M., London NW2
Adaakwah, B., London NW2
Akinsiwaju, E. A., Walsall
Alam, A. H. M. S., London NW1
Almond, R. D., Blackburn
Anderson, H., Belfast
Angel, S. M., Johannesburg
Ankers, P. W., Liverpool
Archer, N. W., Romford
Artis, R. E., Coventry
Arunachalam, S., Bombay
Ashe, A. S., Swindon
Ashfield, D. G., Tipton
Ashton, J., Birmingham
Aspey, R., Wigan
Aston, R., Derby
Atkins, P. F., Gravesend
Atkinson, B. A., Hitchin
Attey, R. B., Scunthorpe
Austin, R. F., Stourbridge
Awotedu, W., Walsall

Backhouse, M., Stoke-on-Trent
Baiden, S., Nuneaton
Bailey, R. F. S., Gravesend
Baker, H. G., Kitwe
Baker, K., Whitley Bay
Baker, W. R., Hadfield
Balan, P., Madras
Baldwin, K. S., Wallington
Balfour, N. A., Maitland
Banerjee, A., London SW12
Banjo, G. A., London SW12
Banker, J. S., London NW1
Baptiste, E. B., London NW9
Barber, A., Huddersfield
Barker, M. G., Sheffield
Barley, J. E., Norwich
Barrett, J. H., London SE3
Barrett, R. M., Glasgow
Basu, S. C., Calcutta
Bathurst, J. E., London W4
Beattie, D. W., Birmingham
Beedham, R. E., Manchester
Bennie, L. M., South Queensferry
Bennion, M. G., Altrincham
Bennison, B. R., Stockton-on-Tees
Benz, M. G. C., Watford
Berks, D. E., Dover
Bhatt, J. M., London W12
Billah, T. I., Wembley
Bishop, R., Bristol
Bisset, I. D. M., Toronto
Blackaby, G. A., Harlow
Blackburn, F., Wakefield
Blake, L. A., Bracknell
Boughton, P. R., Whitwick
Bourne, R. H., Bristol
Bowley, J. D., Loughborough
Boyd, D. J., Germiston
Bradley, C. J., Burton-on-Trent
Bradley, K. C., Durham
Bradney, D. J., Wolverhampton
Brambill, M. J., Grimsby
Bridge, R. A., West Bromwich
Brighouse, A., Birkenhead
Brindley, F. E., Stoke-on-Trent
Brook, A. E., Sheffield
Brookes, L. B., Birmingham
Brookes, R. J., Birmingham
Brown, K. H., Coventry
Brown, M. S., Portsmouth
Brown, N. A., Bexley
Brown, R. R., Peterlee
Brownlee, C. W., Blackrock
Bruce, R., Coalburn
Buckby, M. J., Leicester
Buckland, R. J., Harlow
Burbridge, W. M., Stillorgan
Burke, F., Dublin
Burnett, R. G., Glasgow
Bussey, B. A., Stevenage
Butalia, R. S., London SW20
Butler, D. J. F., Kitwe

Cardwell, A., Freeport
Carnell, R. A., Burnley
Carson, I. M., Lenzie
Carver, R. A., Caister-on-Sea
Causley, K. G., Andover
Challoner, P. J. T., Dawley
Chesworth, J., Marple
Chhabra, K. K., London NW4
Chishti, M. S., Ismailabad
Chowdhary, B. S., London W13
Chowdhury, P. P., Khulna
Christiansen, D. V., London WC1
Clark, A. L., Southampton
Clarke, G. T., London SE19
Clarke, J. P., Dublin
Clarke, N., Watford
Clarke, R. J., Cambridge
Claypole, E., Market Harborough
Clemas, M. J., Caerphilly
Clifford, T. B., London SW1
Clough, A., Newcastle upon Tyne
Clubb, I. M., Reading
Cobb, D. W., North Collingham
Cole, A., Portsmouth
Collier, M. T., Southsea
Collins, R. N., Barrow-in-Furness
Cooke, A., Stockton-on-Tees
Cooke, P. P., Harrow
Cooper, A. J., Formby
Cooper, D. A., Romford
Cooper, G. P., Retreat
Cooper, L., Sheffield
Cooper, M. D., Leeds
Corf, D., Ormskirk
Cottle, C. M., Bristol
Cottrell, D. J., Birmingham
Cowen, M., Newcastle upon Tyne
Cox, E. J., Lowestoft
Cox, T. E., Salisbury
Craig, N., Glasgow
Craig, W., Billericay
Crook, D. C., Bolton
Crumlish, F., Arklow
Curnock, P. H., Inkberrow

Das, R., Calcutta
Datta, O. P., London SW3
Davis, E. R. S., Coulsdon
Davis, J. G., Sudbury
Davis, S. M., Port Elizabeth
Davison, F., South Shields
Deer, P., Swansea
De Mel, R. A. S., London W2
Denton, R. M., Swansea
De Silva, A. E., Colombo
Dexter, M. L. J., St Albans
Dickinson, R. G., Birmingham
Dobson, L. A., Widnes
Dodson, R. A., Birmingham
Dovey, R., Tipton
Dowling, P. G., Dublin
Driscoll, P. J., Ilford
Du Plessis, A. E., Johannesburg
Duckworth, R. P. T., Oswaldtwistle
Duffield, K., Birmingham
Duncan, G. W., Edinburgh
Dunham, R. J., Norwich
Dykes, W. F., London E3

Eadie, G. M., London SE21
Eaton, D. R., Penkridge
Edge, G., Sheffield
Edwards, D. P., Weston-super-Mare
Elkin, D. R., Heston
Ellis, G. E., Liverpool
Errington, M. W., Hartlepool
Evans, O. A., Chester
Evans, R. F., Bolton
Evans, R. G., Dudley

Fakoya, D. T., Leeds
Farquhar, J. I., Kirkcaldy
Fegan, P. L., Lurgan
Fender, J., Middlesbrough
Fereiro, M. J., London W4
Ferguson, J. H., Hornchurch
Fernando, N. I. M., Colombo
Firth, P. J., Birkenhead
Fisher, M. F., Banbury
Fleming, M., Huddersfield
Flynn, K. R., Kenilworth
Fobian, G. N., Maitland
Folland, A. J., Watford
Ford, W. J., Birkenhead
Ford, R. C., Dudley
Forsbrook, B., Hereford
Forsyth, R. C., Glasgow
Foulk, D. H., Ripley
Fowler, J. E. P. S., Watford
Fox, T., West Bromwich
French, D. J., Studley

Garrett, G. N., Cheltenham
George, B. F., Derby
Gilbert, G. J., Rochester
Gilby, G. D., Trowbridge
Gillain, D. P. W., Birstall
Gosling, R. K., Nottingham
Goyal, B. K., London E17
Green, R. V., London SW12
Greenall, I. A., Bolton
Gregory, N. L., Bradford-on-Avon
Gregory, R. A., Chelmsford
Grimes, L. T., Dublin
Grimshaw, K., Cheadle

Haggerty, O. C., Cliftonvil
Hales, P. J., Castle Douglas
Hall, R. G., Liverpool
Halpern, P. I., London NW10
Hamling, M. R., Harrow
Handley, G. P., Harrogate
Hannah, J., Harpenden
Harbin, N. H., London W5
Harris, T. M., Durban
Harrop, F. W., Barnsley
Harvey, D. J., Rugeley
Hattersley, R. P. K., Johannesburg
Hattersley, T., Sheffield
Hatton, J. L., Warley
Hawkins, M. L., Skegby
Hayes, M. J., Consett
Heather, P. W., Camberley
Hemmings, W. E., London NW6
Henderson, A. E., Dundee
Henderson, C., York
Henderson, J., Jedburgh
Henshaw, G. W., Birmingham
Hewson, A. R., Mansfield
Higgs, D. G., Stourbridge
Hill, D., Barnsley
Hill, H., Ware
Hinchcliffe, A. W., Huddersfield
Hinchley, D., Harrogate
Hobbs, K. R., Southampton
Hodgson, D., Hamilton
Holmes, J. P., Sheffield
Holmes, P. A., Bebington
Holt, D. J., Bury
Houghton, R. J. C., Johannesburg
House, R. J., Bletchingley
Howard, D. W., Sandbach
Howard, M. A., Wolverhampton
Howells, A. T., Coventry
Hughes, M. A., Bristol
Hughes, M. T., Liverpool
Hughes, P., Cheadle
Hulse, D. T., Liverpool
Hunt, B., Leicester
Hunter, D., Warley
Hurst, N., Burgess Hill
Hutchins, G. L., Preston

Igoe, M. J., Smisby
Ingham, D. H., Bradford
Irwin, F. G., Hayes

Jackson, A. H., Leeds
James, D., London SW19
James, S. I. W., Uxbridge
Jamieson, A., Glasgow
Jinks, C., Middlesbrough
Johnson, J. A., Gateshead
Johnson, M. A., Basingstoke
Jolliffe, K. J. V., Montreal
Jones, A., Coventry
Jones, M. C. G., Derby
Jones, R., Beeston
Jones, R. A., Crewe
Jones, T. B. J., Limerick
Jordan, M. G., Hull
Jordan, P. R., London E4
Jowett, P., Bradford

Kamlani, A. K., Calcutta
Kamaran, K. A., Alperton
Kane, W. R. G., Belfast
Kenealy, M. T., Dublin
Keni, H. J., London NW11
Kenny, D. P., London N16
Kenyon, R., Belfast
Kerr, R. A., London NW11
Khawja, A. J., Nottingham
Kirk, G. S., London SW16
Kitching, K. W., Stockton-on-Tees
Klapprott, W. P., Port Elizabeth
Knight, J., Liverpool
Knighton, H. K., Uttoxeter
Kuca, D. B., Abingdon
Kwatra, A., Delhi
Kynoch, E., Dalkeith

Laird, A. G., Johnstone
Lally, P. G., London W4
Larkin, C. H., Billericay
Lavers, T. N. R., Cape Town
Legon, J. W., Stevenage
Leng, R. J., Epping
Lenton, D., Warley
Lewis, J. M., Birmingham
Lewis, T. A., Leeds
Lindop, A. C., Warrington
Lindop, L. C., Birkenhead
Linnell, P. C., Birmingham
Lisle, R. G., London W2
Little, C. F., Rugby
Lloyd, I. M. T., Springs
Lloyd, S. H., Doddinghurst
Lomax, A. J., Accrington
Longe, M. O., London N16
Lord, P. D., Coventry
Lording, A. M., Leigh-on-Sea
Lowe, D. J., London E11
Lumb, R. L., Plumstead
Lund, D. F., Liversedge
Lynch, S. M., Leigh-on-Sea
Lynham, D. J., Strood

Macdonald, K. S., Colchester
Macky, P. D., Ratmalana
Macpherson, D. B., Glasgow
Maddock, C., East Goscote
Maisey, R. D., Swindon
Maker, B. J., London SW16
Malcolm, A., Huddersfield
Malhotra, O. P., London W2
Mallick, S. A., London NW2
Manning, P. H., Ipswich
Mannings, R. M., Swansea
Manpuria, P. D., Monifieth
Mason, J., Newbiggin-by-the-Sea
Mason, W. R., Pretoria
Mathison, P. Y., Liverpool
Matthews, W. P., Theydon Bois
Maunder, A., London SE1
McCabe, M. J., Enfield
McCarthy, R. G., St Albans
McCoy, A. C., Bristol
McDermott, J. B., London NW6
McFall, T. L., Bromley
McLaren, T. W., Cheam
McLellan, D. F., Gourock
McQuillan, S., Canterbury
Millar, D. A., Aberdeen
Miller, D. R., Larkhall
Milligan, J., Glasgow
Millington, T. V., Brierley Hill

Mills, A., Didcot
Mills, J. R. H., Mobeni
Mills, R. E., Ilford
Mooney, P. S., Glasgow
Moore, J. J., Hinckley
Moore, L. A., Loughton
Morgan, A. C., Greenock
Morley, P., Rugby
Morris, M. E., Wolverhampton
Motteram, G. J., Stourbridge
Mukherjee, R., Lincoln
Mukhopadhyay, R. N., London SW11
Mumtaz, T., Brentford
Mundell, G., Chester-le-Street

Nadarajah, M., London SW19
Napper, N. J. R., Salisbury
Narasimhan, N. S., Delhi
Nicholson, J. P., Camberley
Nightingale, T., Shepperton
Norman, J., Wednesbury
Nunney, A. W., Droitwich

O'Brien, H., Dublin
Oddy, J. A., Heswall
O'Donoghue, J. L., Woodford Green
Ofori Ampofo, K., London NW2
Ogden, B. M., Coventry
O'Keeffe, W. J., London NW6
Oliver, L. A., Stone
Oronigbagbe, J. O., Birmingham
Orrell, J. C., Blackburn
Osman, A. J., Southampton
Ough, P. E., Darlington

Padley, M., Guildford
Pal, B., Calcutta
Palchaudhuri, P., London SE18
Pandit, G. R., London NW2
Parkinson, J., Manchester
Pashley, J. B., Sheffield
Payne, P. J., Great Baddow
Pearce, A. B., Newark
Peel, A., Nottingham
Peiris, M. E. A., Ratmalana
Penlington, R. S., London E17
Petrie, A. B., Balloch
Phillips, L. J., Manchester
Pinnock, J. G., Jarrow
Pistell, R. J. S., Colchester
Pitt, W. R., Bristol
Potter, D. G., Birmingham
Powell, J. R., Cinderford
Preece, K., Tipton
Presho, R., Ilford
Price, G. F. S., Johannesburg
Pritchett, G. R. I., London NW6
Procter, B., Chorley

Quadri, S. A. A., Karachi
Quinn, P. T., Guisborough

Rahim, T. T., Colombo
Rajaratnam, D. T., Dehiwela
Ralfs, H. W., Liverpool
Ramamurthy, G. S., Bangalore
Ramaswamy, S., Calcutta
Randall, R. C. S., Bristol
Randolph, R., Chalfont St Peter
Richardson, D. B., Middlesbrough
Ridgway, D. A., Wolverhampton
Riley, D. J., Upminster
Riley, J. E., Birkenhead
Robinson, E., Wigan
Robinson, H., Leeds
Robinson, S. J., Leeds
Roden, I., Crewe
Rodrigo, Q. E., Haywards Heath
Roger, L. G., Cheltenham
Ross, D. A., Aldridge
Ross, J. P., Luton
Rouse, D. J., London W7
Roy Choudhury, P. R., London N4
Russell, P. L., Solihull
Rustagi, M. L., London W4
Rutherford, A. W., North Shields

Saeed Uddin, M., Karachi
Saini, O. P., West Drayton
Salmons, R., Birmingham
Sarsfield, H. R., Liverpool
Scanlon, J., Manchester
Scattergood, E. J., Birmingham
Semple, A., Maidstone
Sen, H. N., Thames Ditton

Seneviratne, K. M., London W5
Seneviratne, M. D. H., Nugegoda
Seymour, R. K., Toronto
Shaw, P. A. C., Bidford-on-Avon
Sher, M. N., Germiston
Sherwood, B. J., Shepperton
Shev, G. L., Cape Town
Silva, D. T., Colombo
Silverstone, M., Bath
Simmonds, S. A., Watford
Singh, D., Crowthorne
Sithran, P. R., London W14
Sivasankara Panicker, P., Madras
Sivasubramaniam, M., London SE14
Slater, G., Welwyn Garden City
Slater, J. R., Eastleigh
Smallwood, J. W., Dudley
Smith, A. D., Moreton
Smith, A. P., Warley
Smith, B. J., Rugby
Smith, D. W., Malvern
Smith, G. S., Baildon
Smith, J. J., Scunthorpe
Smith, J. R., Preston
Smith, P. J., Stoneleigh
Smith, R. A., Leicester
Smith, V. D., Hollywood
Smith, W. N. G., Sunderland
Smithson, R., Stockton-on-Tees
Snoddy, A., Greenock
Sommerville, J. L., Motherwell
Soppet, J. G., Glasgow
Soyinka, H. O., London N1
Spandler, K. J., Norwich
Sparkes, D. J., Harwich
Sparks, B. C., Bridgend
Spicer, R. D., London NW10
Squires, M. B., Uttoxeter
Squires, M. J., Swindon
Starling, M. J., Luton
Stephenson, J., Hellesdon
Stephenson, M. J., Llangefni
Stewart, H., Inverness
Stewart, R. H., Glasgow
Stoney, J. C., York
Subramaniam, A., Colombo
Sutcliffe, N. D., Huddersfield
Swampillai, C. A., London SW19

Talebi, H., Molesey
Tanser, J. A., Stoughton
Tant, B. A., Ashford
Taylor, A. E., Sanderstead
Taylor, K. J., Luton
Taylor, V. D., Altrincham
Taylor, W. G. L., Sheffield
Tazzyman, R. J., Stocksbridge
Tettamanzi, A. C. P., Salisbury
Thackray, G. N., Leeds
Thambi, K. M., London NW11
Thompson, L., Ingatestone
Thompson, R. P., Dorchester
Thorpe, D. J., Norwich
Tilleard, R. W., Dagenham
Togel, I. D., Hornchurch
Tripp, D. O., Chelmsford
Tuck, J. H., Bridge of Weir
Turley, F. C., Totland Bay
Turner, W., Rotherham
Twigger, G., Arnold
Tye, B. J., Harwich
Tyler, J. F., Witham

Umeri, F. O., Leeds
Underhill, M. J., Warley

Vanden Driesen, J. W., Colombo
Vellino, M., Tonbridge
Vettivetpillai, P., Colombo
Viljoen, D. J., Randfontein

Walker, G. V., Lisburn
Walton, D. J., Aveley
Watkins, M. G., Leamington Spa
Watson, D. M., Preston
Watson, E., Gateshead
Watt, S. J., Luton
Waweru, P. M., Kiambu
Waygood, J. H., Swansea
Wayte, K., Chester-Le-Street
Weaver, W. J., London SE6
Webb, J. E. F., Maidstone
Webster, C. T. J., Warrington
Weiss, L. H. M., Johannesburg

Whitaker, K., Keighley
White, B. E., Harlow
White, G., Huddersfield
White, M. F., Uckfield
Wild, R. S., Godalming
Wilkins, J. D., St Albans
Wilkinson, J., Ashton-in-Makerfield
Williams, D. J., St Helens
Williams, J. M., Windsor
Williams, J. R., Northwich
Williams, M. C., Cwmbran
Williams, N. G., Neath
Williams, P. H., Winchester
Williams, R., Greenford
Wills, A. E., Sale
Winfield, R. S., Gunthorpe
Wiseman, A. W., Helensburgh
Wishart, M. L., Rainham
Wood, A., Leeds
Woolley, B. R., Durban
Woolnough, P. B., South Ockendon
Worricker, K. J., London W13
Worsley, M. G., St Helens
Wrigglesworth, A. T., London N21
Wright, M. A., Burton-on-Trent
Wrigley, M. P., Stockton-on-Tees
Yate, R. W., Wolverhampton
Yusuf, N., London NW11

Zaidi, S. G. P., Mardan

PART V

First Place and The S. Laurence Gill Prize: Guy, P., Lancaster

The Lewton Coronation Prize for the best paper in Advanced Accounting and Financial Management: Khin Mt Oo, Rangoon

The Harold Wilmot Prize for the best paper in Management Principles and Practice: Bird, A. C., London

Aburrow, D. J., Newbury
Adams, O. W., Portsmouth
Adesanya, R. A., London SW17
Agrawal, P. G., Bombay
Ahmad, S., Karachi
Ahmed, K., Wembley
Ainley, A. S., Huddersfield
Ajasin, M. K., Leeds
Ajijola, J. O., London SW17
Akram, S. M. I., London SW3
Ali, M., London W14
Allen, G. J., Stockport
Allen, R. G., London W13
Anderson, A. P., Hardgate
Anderson, B. E., Buxton
Ansah, R. K., Accra
Aplin, E. C., Hereford
Asher, H. D., Karira Jinja
Ashton, R., Birkenhead
Ashworth, G. H., Stanmore
Austen, D. J., Hythe
Avery, C. R., Montreal
Avery, L. J., Stevenage

Bacon, J. F., Wolverhampton
Balogun, M. A., London SE15
Barker, K. C., Willenhall
Barker, T. G., Ormskirk
Barnsley, B. W., Warley
Barron, D., Blackpool
Barwood, A. F., Stourbridge
Baskind, C., Johannesburg
Bates, E. R., Clevedon
Batte, T. G., Hull
Baxter, R. N., Hamilton
Bebbington, J. M., Tyldesley
Benbow, D. E., Stoke-on-Trent
Bennett, J. P., Kettering
Bhatia, H. R., Kanpur
Bhola, S. K., Hounslow
Bill, M., West Bromwich
Birchall, I., Chorley
Bird, A. C., London N2
Bird, J. M., Johannesburg
Blersch, J., Stellenbosch
Bloomfield, M. A., Huntingdon
Bolodeoku, D. A., Newcastle upon Tyne
Booker, R. C., Sheffield
Booth, F. W., Southampton
Botcher, J. F., London E6
Bowen, A. J., Slough
Branson, D. A., West Bromwich
Brewster, D. E., Wendover
Bridges, N. J., Rugby
Broughton, J. G., Nottingham
Brown, C. E., Nottingham
Brown, F. W., Grantham
Brown, M. J., Wolverhampton
Burke, E. H., Thornton
Burke, M. J., Birmingham
Butland, G., São Paulo
Byrne, J. L., Enniskerry
Byrne, M., Dublin

Carter, E., Dunstable
Chamberlain, A. J., Leeds
Chapman, B. J., Colchester
Charters, D. J., Teddington
Cheshire, S. C., Walsall
Chishty, M. S., London SE5
Chopra, S. K., Glasgow
Clamp, F. J., Walsall
Clark, D., Ibstock
Clark, M. J., Bristol
Clark, T. R., Buntingford
Clifton, P. F. G., Barnet
Clother, L., Bayfordbury
Clucas, J. D., Liverpool
Coates, R. L., Harrogate
Cochrane, W., Glasgow
Colligan, P. G., Dun Laoghaire
Conroy, T. H., Manchester
Coogan, P. A., Greenock
Coombes, R. J., Widnes
Coombs, B. W. J., Walsall
Cope, A. C., Peterborough
Copeland, P., Derby
Cornes, D. M., Sittingbourne
Cornish, J. D., Berkhamsted
Cotton, P., Walsall
Coul, A. C., Bournemouth
Coutts, J. R., Edinburgh
Cowburn, I. F., Cape Town
Cox, A. E., Worcester
Cropper, R. W., Birmingham
Cuckson, B., Rotherham

Da Costa, P. J., London WC1
Dale, C. W., London NW3
Daly, J. F., Pudsey
Dalzell, J. G., Sale
Daniels, R. J., Henley-on-Thames
Danoo, D. B. K., London NW6
Davies, A. W., Cuckfield
Davis, D. J., London NW6
Davis, J. F., Birmingham
Day, T. J., Romford
Deecu, M. K., London NW11
Dennehy, T. J., London SW19
Denton, A. W., Newmains
De Soyza, U., London W2
De Waas, A. P. C. M., Leeds
Dharmagunaratne, T. C., Colombo
Dhawan, H. V., London W5
Dhillon, T. S., Mariakani
Docherty, G. C., Hong Kong
Donnelly, S. J., Stillorgan
Doodson, M. E., Manchester
Dosani, M. A., London N8
Doughty, J. L., Wolverhampton
Dovey, B., Leeds
Dunhill, K. B., Southall
Durston, R. H. G., Guildford
Dutta, N. R., London NW11
Duxbury, K., Leeds

Eastwood, B., Derby
Eccles, J. G., Sheffield
Edwards, I. C. S., London SW17
Edwards, L. J., Neston
El Muhaureq, A. M., Birmingham
Elkin, K. G., Stoke-on-Trent
Epsley, B., Maidstone
Erinle, H. A., London N1
Evans, B. J., Sutton Coldfield

Famakinwa, J. O., London N1
Fieldhouse, D. A., Wolverhampton
Finch, A. M., Birmingham
Fisher, B., St Albans
Fisher, D. K., London WC1
Fitzpatrick, H., Warrington
Forman, W. G., Glasgow
Fotheringham, I. W., Camberley
Frame, J. W., Strathaven
Fuller, P. M., Billericay

Gaherty, P. T., Bristol
Galley, J. R., Newcastle upon Tyne
Garratt, M., Dudley
Gerrie, G. N., Dundee
Gibbon, D. B., Port Elizabeth
Gibbs, D. C., Crowborough
Gilliard, J. P., Bristol
Godsiff, P. G., Chatham
Goh Chee Wah, Singapore
Goldie, L. E., Scunthorpe
Goli, J. Y., Leeds
Gomes, L., Calcutta
Gomm, R. D. D., Cape Town
Goonetilleke, L. A. N., Ratmalana
Gordon, M. A., Tubbercurry
Gosling, J. L., Bury
Goyne, G. R., London NW2
Gracie, A. J., Croydon
Greaves, M. B., London NW9
Green, J., Leeds
Grey, M., Sheffield
Grieve, R., Leven
Griffiths, R. G. M., Springs
Guy, P., Lancaster
Guyver, E. F., Worcester Park

Hale, M., Stourbridge
Hall, M. R., Stockport
Hammett, J. A., Newport
Hancock, R. M., Manchester
Harlow, I. P., Chililabombwe
Harper, C. W., Coventry
Harvey, D. P. S., Rugby
Harvey, M. W., Warrington
Hayden, A. W., Dublin
Haydock, R., Ramsbottom
Hazell, D. B., Wallasey
Hector, R. H., Wedmore
Henson, B. R., Andover
Hetherington, G. R., Glasgow
Higham, D. K., St Helens
Hill, A. J., Sandwich
Hill, A. M. H., London SW3
Hill, C. W., Glasgow
Hill, W. E., Benoni
Hillier, P., St Albans
Hillin, M. J., Dublin
Hinchcliffe, J. G., Bromsgrove
Hindocha, H., Wembley
Hodgetts, S., Wolverhampton
Hodgson, W. H., Ilkley
Holmes, N. R., Bristol
Hopkinson, R. P., Birmingham
Houlihan, M. K., Dublin
Houston, J. B., Glasgow
Huebner, A. J., Aylesbury
Hunter, T., Ellon
Hutchinson, R., Glasgow

Ibrahim, L., London E9
Irwin, M., Chesterfield
Ison, C. J., Hampton

Jackson, H. E., Harrogate
Jackson, P., Stockport
Jackson, P. R., Pudsey
Jackson, R. H., Sheffield
Janion, J. P., Thaxted
Jeffrey, P. O., Birmingham
Jindal, S. K., Toronto
Johnson, A. M., Solihull
Johnston, A. R., Guildford
Jones, M. H., Bury

Kail, J., Birmingham
Kakunthanathan, P., London NW6
Kapur, K. K., Teddington
Keating, B. M., Strood

Keller, J. P., London SW17
Kendrick, J. A., Liverpool
Khan, K. F. M., London W3
Khin Mg Oo, Rangoon
Krabman, R. E., Boksburg
Krishnaswami, C., New York
Kumar, A., London W1
Kyte, D. W. G., Lydney

Lake, B. V., Bristol
Lal, M. S., Manchester
Lalani, M. H., Bournemouth
Laleye, E. A., London SW11
Lamb, G., Hartlepool
Lamb, M. W., Kuala Lumpur
Land, R. S., Colchester
Lane, J. E., Beaconsfield
Lane, P. M., Burnley
Latham, A., Northwich
Leach, D., Ferndale
Leather, E. G., Liverpool
Lee, D. F. J., Ipswich
Ling, R., Chorleywood
List, D. P., Watford
Lobo, J. M. F., Ernakulam
Lovelady, J., Liverpool
Lucas, J. R. J., Kenley
Lucas, R. E., Worcester Park

Mackinnon, D. B., Durban
Mailvaganam, K., Colombo
Mallik, P. K., London N4
Marcano, H. S., Maraval
Martin, I., Sale
Maruthainar, N., London N3
Mason, M., Eaglescliffe
Mathias, P. C. H., London W4
Maung Maw Than, Rangoon
McConnell, K. S., Dublin
McCreery, R. G., Glasgow
McCullough, W. J., Belfast
McHugh, A. K., Bradford
McIntosh, J. A. C., Port Elizabeth
McKendrick, R., Bristol
Meade, R. H. M., Carshalton
Miles, I. P., Sale
Milne, I., Glasgow
Milne, M. J., Hornchurch
Misra, A. K., Kanpur
Misra, J. N., London SW7
Moffatt, M., London Colney
Mooney, D., Luton
Morgan, R. E., Hornchurch
Morrell, W. C. C., Tiverton
Murray, A. N. M., Edinburgh
Myatt, C. J., Stoke-on-Trent

Nairn, I. G., Cape Town
Najmi, S. M. I., Greenford
Nangiana, G. S., Delhi
Neville, R. S., Sutton Coldfield
Newton, R., Bristol
Nicholson, M. J., Barrow-in-Furness

Oduala, G. B., London SE15
Odumenya, M. O., London SE22
Oladele, A. A., London SW8
Olawole, D. K., London SE13
Olawuyi, K. O., London N19
Oleolo, G. A., London SW4
Onasanya, M. O., London N22
O'Riordan, N. P. C. S., Mallow
Osborne, R. A., Bromsgrove
Oso, D. S., London N7
Owojori, S. A., Leeds

Palmer, L. C., Croxley Green
Parrin, N. D. J., Sandy
Parshad, R., London SE7
Parsons, J. S., Salisbury
Partridge, M. J., Birmingham
Patterson, J., Lancaster
Pearson, B., Billericay
Pedley, B. R., Harpenden
Peel, G., Elland
Perera, H. A., London SW18
Perera, U. L. C. M. H., London NW3
Perks, R. W., Weston-super-Mare
Peterson, R. J., Portland
Pettman, P. J., Birmingham
Pickering, B., Newcastle upon Tyne
Pickles, D., Halifax
Pickles, E. L., Gravesend
Pollott, S. R., Wembley
Poole, N., Chatteris
Potts, K. V., Sutton Coldfield
Povey, K., Brentwood
Powell, D. H., Birmingham
Pracy, K. J. G., Romford
Pragatheswarar, T., Colombo
Preece, J. A., Halifax
Preston, D. G., Chard
Price, K. A., Bristol
Prince, L. R. G., Corby
Pritchard, B., Knutsford

Quine, P. W., Birmingham
Quraishi, A. M., Karachi

Rahman, B. D., Karachi
Rainer, C. M., Doncaster
Raistrick, G. M., Leeds
Rajagopalan, K., Bangalore
Ramaswamy, V., Bombay
Rao, P. S., Patna
Ravindranathan, P., Surat
Ray, H. F., Birkenhead
Redding, H. C., Grimsby
Redshaw, P. D., Birmingham
Reffell, M. J., Aldershot
Richards, E. W., Wolverhampton
Roberts, J. W., London SE1
Robinson, B. A., Mold
Roskilly, J. E., Windsor
Rowles, R. K., Leeds
Runacres, P. G., Northfleet
Russell, C., Ilford

Sachdev, A. S., London NW6
Sapara, A. O., London SE24
Sarva Rao, P., Jamshedpur
Sathyamoorthy, S. R., Sonawani Colliery
Satkunananthan, C., Colombo
Savage, A., Chatham
Sayal, C. S., London SW15
Sellers, J. E., Luton
Selvaganesan, S., Madras
Shaw, B. A. P., Glasgow
Shehan, C. J., Eastleigh
Sheppard, K., High Wycombe
Sherwood, J. H., Aldershot
Shisler, B., Johannesburg
Simon, G. F., Johannesburg
Singh, K., Kuala Lumpur
Sivagnanasingham, P., London SW20
Smith, B., Leeds
Smith, J. S., Leicester
Smith, K. P., Dublin
Smith, M. E., London E13
Smith, R. L., Tamworth

Somerville, R. M., Poole
Soulsby, S. J. S., Hemel Hempstead
Sproule, N. J., Ampthill
Srinivasa Rao, P. S., Davangere
Steele, B. P., East Rand
Stevens, M. A., Swansea
Stewart Jones, R. A., Derby
Steyn, H. S., Discovery
Stirrup, K. W., Grays
Strike, L. A., Iver Heath
Stuart, A. D., Sittingbourne
Sturgess, D., Markfield
Suckling, G. J., Reading
Summerbell, J., Ilford
Swinden, P. H., Warley
Sykes, A. M., Tunbridge Wells

Tan, F. C. K., Birmingham
Tattersall, T., Oswaldtwistle
Taylor, M. J., London W7
Tharmarasah, R., Walsall
Thiagarajan, M., London SW4
Thomas, D. J., Ilford
Thomas, G. L., Harrow
Thomas, P., Newport
Thompson, J., Wigan
Thompson, N. T., Ilkeston
Thorley, G., Stamford
Thwaite, J. C., Liverpool
Tjoa Tjoen Khay, Singapore
Todd, B. M., Wheaton Aston
Tunningley, N. Y., South Shields
Turner, A. R., Harrogate
Tyler, D. J., Solihull
Tyndall, G. M., Godmanchester

Vadehra, T. K., Croydon
Vandy, M. J., Watford
Van Lottum, G. W., Harpenden
Vidler, E. T., Armitage
Vithal, G. V. S. K., Thana

Walker, M. J., Johannesburg
Walker, M. N., Ilford
Walker, R. D., Sutton Coldfield
Walker, T., Tollerton
Ward, D., Birmingham
Warden, N. C., Kirby Muxloe
Wardle, G. V., Walsall
Warland, E. P., Pinner
Weigert, E. C., London N14
Weighill, W. L., Sunderland
Welbourne, E. G., Leamington Spa
White, P. Y., Camberley
Whitley, A. J., Derby
Wiggill, J. H., Big Bend
Wijesinghe, W. A. D. H., Kingston upon Thames
Williams, A. J., Hartford
Wills, T. J., Merriott
Wilson, C., Seaham
Winhall, B. D., Chingola
Winters, G. D., Birmingham
Wong, R., St Helens
Wood, D., Hitchin
Wood, R. M., Harlow
Woodhouse, M. J., Norwich
Wybrew, I., Bishop's Stortford
Wykes, D. W., Nottingham

Yahya, M., Karachi

Zainul Abidin, B. Y., London W1

PARTS IV AND V

Aldington, R., Warwick

Box, T. M., Swindon
Bradley, J. P., Bristol
Brookes, M. C., Halesowen
Bruce, D. M. M., Warley
Bustin, E., Hemel Hempstead

De Silva, G. S. S., Colombo
De Wet, H. C., Salisbury
Donnelly, M., Esher

Foo Ah Kuang, Kuala Lumpur
Fraser, J. R. T., Harrow

Hay, W. D., Durban
Hickey, A. G., Poynton

Issar, S. S., London SE14

Johnson, R. R., Johannesburg

Laniyan, S. O., London SW11
Last, B. W., Maidstone
Likierman, J. A., London NW8
Lumley, P. L., Stamford

McGibbon, D. C., Coatbridge
Mehra, S., London EC2
Mitchell, D. J., Durban
Monk, D. T., Birmingham
Moore, T., Walsall
Munton, C. M., Woodford Green

Newman, B. A., Potters Bar

Nott, J. H., Leeds

O'Callaghan, P. J. B., Kanturk
Odegbaro, A. A., London SE24
Olayimika, R. O., London N7
Onanuga, E. A., London NW10
Onerhime, M. O., London SE14

Phillips, D. M., Coventry

Ramachandran, C., Dindigul
Russell, W., Airdrie

Silver, R. J., Bradford
Smith, S. J., Corby
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Nationalized Monopolies

THE debate on nationalization no longer dominates the political scene as it did 20 years ago. The nationalized industries are accepted as part of the British way of life. Realists recognize that their involvement in terms both of economics and votes make major changes impossible. They employ 1 in 15 of the working population, account for about one-third of all investment, and produce some 10 per cent of the gross national product.

The role and scale of these industries make it inevitable that there will be conflict between economic, financial and social objectives; even considerations of national prestige have intruded. The result is that the boards, the responsible Ministers and the Treasury, not to mention the trade unions, do not always agree. As for the consumer, he is quite clear where he stands.

The massive report from the Select Committee on *Ministerial Control of the Nationalized Industries* (H.M.S.O., price £6 2*s* 6*d*) provides the latest stage in the quest for combining public accountability and efficiency. Its main recommendation is that the 13 nationalized boards should be supervised by one Ministry. The fact that the recommendation is supported by members of all parties on the Select Committee and, it seems, by the trades union spokesmen, is not – at least for the more cynical observer – the strongest recommendation. The Treasury, which still has some regard for the taxpayer's pocket, is reported to be unenthusiastic but, as the cynic may well aver, this may merely be departmental politics.

In principle, the need for a unified and overall supervision of a key sector of the national economy is not disputed. Efficiency apart, some control is necessary to protect both the consumer and taxpayer. The only real issue in the debate is how that control can best be exercised. Perhaps a single Ministry is the answer, but surely much is needed besides. Apart from facts gleaned at intervals by the Select Committee, information about the affairs of the nationalized industries is singularly lacking. Why cannot more information be published on the basis of policy decisions such as new investment, operation costs of different sections of the industry, with a clear definition of the bases of the costings?

It is not suggested that any analysis of costs or investment appraisal is 100 per cent objective; policy decisions in particular are invariably subjective. No one expects miracles or continuing successes from the nationalized boards. But information is required. When one of the boards announces that it has engaged a leading firm of management consultants to cost its operations and then publishes the report, we can begin to believe in 'public accountability'.

FINANCE ACT 1968

The Special Charge – I

PART IV of the Finance Act 1968 consisting of sections 41–50 inclusive and Schedules 15 and 16, imposes an entirely new tax – the 'Special Charge'. This tax has been somewhat elbowed into the background, partly because it will apply to a numerically small proportion of the taxpaying public, and partly because the 1968 Act introduced many seemingly more immediate problems.

However, it is by no means too early to be considering the new impost. On October 5th one time limit imposed by Part IV will be expiring, namely the right to elect for separate assessment of husband and wife, or the right to elect against such separate assessment where separate assessment already applies for surtax.

Then, the tax itself becomes payable on January 1st, if the Revenue are able to arrive at assessments by then. Even if they cannot, the tax will carry interest at 4 per cent net from that date, whenever it is assessed. This interest can be avoided by paying tax on account or by buying tax reserve certificates. However, it would be unfortunate to pay something on account and then to find that there was no liability, so that interest on the money paid was lost.

The 'special charge' bears an extremely close resemblance to the so-called 'once for all' special contribution imposed twenty years ago by the Finance Act 1948. Like the special contribution, it is in terms imposed as an additional tax on investment income but its real object is to tax wealth. The combined rate of income tax, surtax and special charge can be as much as 27*s* 3*d* in the £ on the top slice of a man's investment income.

Like the special contribution, too, the special charge is confined to individuals who had investment income liable to United Kingdom tax in 1967–68. However, if the individual was not domiciled in the UK in the tax year 1967–68, then he is not chargeable unless:

(i) he was resident and ordinarily resident in the United Kingdom in the year 1967–68; *and*

(ii) he was ordinarily resident in the United Kingdom throughout the years 1958–59 to 1966–67 inclusive.

This provision appears in section 41 (3) which, however, gives no clue as to what is meant by 'throughout'. On one interpretation, absence abroad for no matter how short a time would be enough to break the sequence of the nine years. This would be so notwithstanding that section 41 (6) directs that expressions used in Part IV have the same meanings as they have in the Income Tax Acts. However, if the point should ever arise, no doubt the Revenue would claim that the requirement was satisfied if it could be said of the taxpayer that he was resident, in the income tax sense, for each of the nine years or for parts of each of them.

To be chargeable, the individual's aggregate investment income for the year 1967–68 must exceed the aggregate of £3,000 plus those surtax personal allowances to which he is entitled by virtue of section 14 (1) of the Finance Act 1957, as amended. These allowances do not include either the ordinary earned income allowance or the special surtax earned income allowance. It follows that the amount of the individual's earned income, or even its existence, will not affect the amount of his exemption. If he is entitled only to the higher personal allowance of a married man, his exemption limit will be £3,120.

The first £1,000 of the excess of the aggregate investment income over the exemption limit is charged at 2*s* in the £; the next £1,000 at 3*s*; the next £3,000 at 6*s*; and the remainder at 9*s*. Thus, for a single man with an aggregate investment income of £12,000, the position is as follows:

Income	*Rate*	*Charge*
£	*s*	£
3,000	–	Nil
1,000	2	100
1,000	3	150
3,000	6	900
4,000	9	1,800
£12,000		£2,950

If the individual died before the end of 1967–68 his estate is not chargeable with any special charge at all. On the other hand, if he survived until midnight on April 5th, 1968, his estate is chargeable.

How does one arrive at the individual's 'aggregate investment income'? Section 42 (1) says that the section applies in ascertaining income and aggregate investment income for the purposes of Part IV. The rest of section 42 consists of a number of somewhat disjointed rules, the basic one of which is in subsection (2) which says that investment income 'means' income from any source other than earned income and other than income chargeable under Case VII of Schedule D.

Thus short-term gains of the individual himself are excluded, although they are not earned income. Long-term gains are not income at all and therefore there is no need to include a provision expressly excluding such gains. 'Aggregate investment income' is the aggregate of the individual's investment income from all sources. 'Earned income' is defined in section 525 of the Income Tax Act 1952.

Case VIII income is not the only exclusion. Section 42 (2) is 'subject to the provisions of this Part of this Act'. So is section 42 (3), which lays down another general rule, namely, that income from any source is to be ascertained as it is ascertained for the purposes of surtax. If income is treated as the income of the individual for surtax, then it is to be so treated for the purposes of special charge.

Section 42 (2) having specifically excluded short-term gains, section 42 (4) makes further exclusions, as follows:

(*a*) (i) income from investments (including land) which falls to be taken into account in computing, for income tax purposes, the profits of a trade, profession or vocation; and

(ii) income which would fall within (i) but for the fact that it is taxed at source; and

(*b*) any other income arising from a trade, profession or vocation carried on by an individual otherwise than in partnership.

The exclusion in (*b*) applies where the individual owns a business the income from which does not fall within the definition of 'earned income' in section 525 of the Income Tax Act 1932. However, if the business is not entirely owned by him but is a partnership in which he is a sleeping partner, then his share of the profits will constitute investment income for special charge purposes. Again, if the trading etc. profits include income from investments which do not fall within (*a*) above, then such income is included for special charge purposes (section 42 (5)).

The distinction between section 42 (4) (*a*) and section 42 (5) will not always be easy to draw. Clearly a stock-jobber who holds investments temporarily, as trading stock, will not need to pay special charge on the dividends. On the other hand, where a partnership holds its reserves in the form of investments, the individual partners will be chargeable on their individual shares of the income from those investments. This is so whether or not that income satisfies the definition of 'earned income' in section 525.

Another, separate, list of exclusions from 'investment income' appears in section 42 (6). These fall into three categories:

(*a*) any annuity purchased for an individual in pursuance of any direction in a will, or to provide for an annuity payable by virtue of a will or settlement out of income of property disposed of by the will or settlement; or

(*b*) royalties or other sums paid for or in respect of:

(i) the copyright in a literary, dramatic, musical or artistic work; or

(ii) the use of a patent;

where the copyright or patent or the right to receive such sums has devolved by will or on intestacy on the death of the author or inventor and the recipient took on that death or after one or more further devolutions on death; or

(*c*) any amount as being a sum charged to surtax under section 242 of the Income Tax Act 1952 (consideration for certain restrictive covenants etc.)

An annuity within (*a*) would be charged to income tax and surtax in full, but bearing in mind that the special charge is, in essence, a wealth tax taxing the underlying capital of investment income, it would be unfair to saddle the annuitant with tax on his annuity. In the case of a purchased annuity which is not within (*a*), only the interest portion is chargeable to tax and therefore the unfairness is not so great. In the case of an annuity received from a trust, there are provisions under which the burden of the charge can be transferred to the trust property.

So much for the meaning of investment income. Section 42 (7) proceeds to deal with the ascertainment of *aggregate* investment income. It sets out the general rule that any deductions for interest, annuities or other annual payments allowed for surtax for 1967–68, are likewise to be allowed in arriving at aggregate investment income for the purposes of special charge.

The reason behind this is obvious. If a man has borrowed £20,000 from his bank and invested it in high-yielding shares, then a so-called wealth tax which taxed him on the dividends but did not allow for the bank overdraft interest would be highly unfair. On the other hand, there would be less logic in deducting a terminable annuity paid by the taxpayer; particularly if it had only a short time to run.

Section 42 (7) is expressed to be 'Subject to the following provisions of this section'. This leads in to subsection (8) which sets out not only the exceptions to the general rule about deductions for interest, annuities and other annual payments but also other prohibited deductions, presumably as a modification of the meaning of the word 'aggregate'.

(*To be continued*)

Imports – Time For Deposits?

by AN ECONOMIC CORRESPONDENT

PRELIMINARY estimates suggest a second quarter balance of payments deficit of £170 million. The recent trade figures influencing this deficit have been distorted by abnormal features which have increased the difficulty of determining the underlying rate of change. While authoritative forecasts suggest that Britain is moving towards a balance of payments surplus, this progress is likely to continue to be slower than previously anticipated. There are, moreover, transitional difficulties.

Combined with unexpectedly high productivity increases, a major complication in this situation is the rising level of unemployment which, on present trends, is likely to approach the politically tolerable limit this winter thereby precluding further major directly deflationary measures to restrain imports. The internal effects of deflation are, in any case, disproportionate to the effect on imports.

Over the medium term, a measure of relief may be anticipated by a rephasing of external debt repayments. This would not directly affect the trade balance, however, and adverse abnormalities in the trade balance or even adverse seasonal factors (which normally strongly affect the third quarter) may lead to a loss of confidence in sterling and renewed exchange rate pressure. This pressure can also come about from a lack of confidence resulting from continued slowness in reducing the visible deficit – international bankers and speculators generally do not appreciate the lags involved in the application of economic strategy or the subtleties of seasonal variations.

The next two months are critical. Combined with uncertainties regarding revaluation of the DM (predicted by the end of 1969) and the Swiss franc, and the devaluation of certain other currencies (notably the French franc) together with the absence of long-term viability in the present two-tier price structure for gold, the consequence could well be the floating of the sterling exchange rate with adverse effects on UK trade. If sterling is floated before the IMF's special deposit reserve scheme has been given time to work, the probable result would be either the flotation of numerous other currencies or the emergence of rival gold and dollar exchange systems. Either situation would have adverse consequences for world trade.

The continued slowness in achieving a balance of payments surplus also means an increasing burden of external debt which adds to the difficulty of restoring full employment and a more rapid rate of economic growth.

While current forecasts suggest figures which are at the margin of the acceptable limits, the unusual degree of uncertainty in these forecasts requires official action which should err, if at all, on the side of caution.

For these reasons it is anticipated that the Government will, at an early stage, take direct action to restrain the level of imports (with knowledge of, but without prior publication of, indicative trade figures). It is most unlikely that this action would take the form of a reimposition of the temporary import surcharge which encountered severe opposition from our trading partners. Import quotas would be too clumsy and too slow and appear to be precluded by past ministerial statements regarding import controls. The obvious alternative is to impose a deposit system for imports (which would be a system of import restraint and not of import control). This can be applied quickly and without creating either a significant administration problem or undesirable distortion within the economy.

A deposit system is internationally acceptable. It has been used in eight European countries – Germany, France, Denmark, Finland, Iceland, Spain, Turkey and, currently, Greece – and is general among Latin American countries while also occurring in some Arab, African and Asian States. There are a number of variations but the system which could be expected in the UK would require an importer to make a sterling deposit in a commercial bank which would then be transferred to a special account at the Bank of England. The deposit would be a proportion of the c.i.f. value of the imports and would initially be retained for 90 days. A deposit certificate would be required before the imports could be cleared through Customs.

In view of anticipatory stock building and to facilitate implementation, the system would probably be initially general but made selective after the first month. The restrictive monetary effects of this scheme would be felt quickly but would be temporary, operating only for the period during which the deposits are being accumulated. For this reason and to facilitate international acceptance, a time limit for the operation of the scheme would probably be stated when the system is announced. The most likely time limit is six months. This would be adequate since it is necessary only to have a temporary solution to meet a transitional problem.

The Chancellor of the Exchequer stated in the House of Commons on July 27th that it is the Government's policy to limit to the greatest possible extent facilities for financing imports of manufactured goods for home consumption and imports of all kinds for stock building. With the Government's approval, the Governor of the Bank of England has written to the commercial banks asking them to scrutinize with even greater care than previously all requests for credit where there is prima facie evidence that to provide the finance would facilitate payment for imports.

There would be a foreign precedent for not permitting banks to grant credit, either directly or indirectly, to finance these deposits; but it is anticipated that permission to grant credit for machinery, components and materials would be given within the existing ceiling established for bank advances. It should be noted that pressure will develop within this ceiling as the result of the 50 per cent increase in selective employment tax payments this month (which increases taxation by £150 million on an annual basis). Advances might well be required to carry a relatively high rate of interest. It is unlikely that interest would be paid on deposits but, if paid, the rate of interest would probably not exceed that for tax reserve certificates (currently 4⅝ per cent).

This action could be expected significantly to reduce the level of imports through increasing the cost of their financing. It would also have a deflationary effect unless interest rates generally are lowered. A fall in Bank rate to 6½ per cent by the end of the year is therefore a most probable corollary.

Current Affairs

UK Balance of Payments

FOR anyone who wishes to dwell on the deficiencies of Britain's external accounts, the latest edition of the 'pink book' covers the balance of payments figures for the period 1952–67 (H.M.S.O., price 12*s* 6*d*). The latest estimates show that the overall deficit in 1967 was £490 million, a figure some £50 million below the preliminary estimate published in March. There has been a similar downward revision of the deficits in the two preceding years to £294 million and £89 million in 1955 and 1956 respectively. The violent swings in UK overseas trade are well brought out by the latest estimate that a current account surplus in 1966 of £15 million was converted into a deficit of £404 million in the following year.

The statistical revision for earlier years apart, the 'pink book' provides some interesting information about the net earnings on invisible account from the City. The net income of British insurance companies is estimated at £75 million, while that for Lloyd's was £33 million and the contribution from insurance brokers was £27 million, making a total contribution of £135 million from British insurance activities These figures include portfolio investment income. The total overseas receipts of UK banks in 1967 were £119 million, but total expenditure on interest etc. amounted to £97 million. Merchanting profit on third country trade and re-exports is 'estimated to have been of the order of £30–35 million annually during the period 1965–67. The estimated net overseas receipts of brokerage and other financial and allied services totalled £33 million last year.

The publication of revised estimates, while it is to be welcomed, neverthelesss prompts the thought that some of the earlier estimates were so wide of the mark that it might have been better if they had not been published. It is the more regrettable that these dubious estimates relate to the most sensitive sector of the UK economy with sharp fluctuations having a marked effect on overseas opinion concerning the sterling exchange rates. Obviously, a decision not to publish such preliminary estimates, or even to delay them until their 'accuracy' was verified, could have an equally unhappy impact upon foreign opinion. The only answer seems to be that the Board of Trade and the Central Statistical Office should redouble their already considerable efforts to improve these data. Without making undue claims for published public company accounts, one can imagine what would happen if preliminary profit statements differed so markedly from the audited accounts.

Post Office Year

WHATEVER public reaction to the quality and, more especially, the prices of the services provided by the Post Office may be, the annual report and accounts for 1967–68 (H.M.S.O., price 16*s* 6*d*) provide some elucidation of the problems concerning this organization. The body is now a public corporation, and has financial targets which require it to earn an overall net return of 8 per cent on its assets. During the five-year period ending in 1967–68, telecommunications achieved this target, as did the postal services over the latter part of the period, although for the whole Post Office the return was only 7·6 per cent. During the five years, however, the report notes that pay and price increases of nearly £150 million have been made, and it is stated that telephone users have benefited to the extent of nearly £150 million from STD.

New financial targets have been set for the Post Office as a result of the White Paper published in 1967 (Cmnd. 3437). The postal target is a margin, after depreciation and interest, of 2 per cent on total expenditure. The telecommunications target is a net return of 8½ per cent on capital. The report explains the use of the different bases of these targets by the statement that a target in this form, related to current account outturn, is more appropriate to the less highly capitalized postal services. Nevertheless, 'despite the strenuous efforts that have been made to absorb costs and increase efficiency . . . some charges will have to be increased'. The report notes the findings of the Prices and Incomes Board, to the effect that while there are many criticisms with which the Board agrees, 'the very substantial merits of the Post Office should be recognized'.

In view of the Post Office's case for the new two-tier letter service, readers will be interested to learn that 'some 92 per cent of all fully paid letters are delivered by the next working day after they are posted'. The implications of this statement seem to have been overlooked.

One of the more interesting sections of the report comprises the strictures of the Comptroller and Auditor-General, Sir Bruce Fraser, who contends that the Post Office should have sought damages in respect of late deliveries of equipment and taken lower tenders for certain equipment, which would have meant that some £½ million could have been saved. The Post Office defence is reserved for consideration by the Public Accounts Committee to which Sir Bruce's report will be sent.

Sterling Assets and Liabilities

THE devaluation of the £ in November 1967 has had a marked effect on the sterling value of the UK's external assets and liabilities, according to the latest *Quarterly Bulletin* of the Bank of England. This is due to the fact that by far the larger part of these external assets are denominated in overseas currencies which were not devalued last November. A smaller proportion of sterling liabilities are denominated in overseas currencies and the remainder, apart from the liabilities to the International Monetary Fund which have a gold or dollar clause protecting their value, are denominated in sterling. The result has been, therefore, that the value of UK external assets has risen by more than the value of external liabilities.

At the end of 1967 the identified external assets exceeded liabilities by some £2,000 million. This represents an increase in the net overall creditor position in sterling terms of nearly £500 million compared with the year earlier. Bearing in mind that the direct effect of devaluation on values was relatively larger, it follows that without the change in parity the net creditor position would have deteriorated.

Short-term external assets totalled £7,102 million at the end of 1967 but, since short-term liabilities amounted to £9,848 million, there is a net liability of some £2,746 million. This compares with £2,101 million at the end of 1966. The deterioration in the net short-term position appears entirely in the official sector; there was an improvement of £150 million in the corresponding private sector.

The strengthening of the UK external position in 1967 was due entirely to an increase by £915 million in net long-term assets. These now total £12,609 million while liabilities are estimated at £7,852 million. The bulk of these long-term assets consist either of direct investment or private portfolio investment. Even so, the basic, illiquid position of the UK remains a matter for serious concern.

Which Investment?

ALTHOUGH the level of private consumption in the UK economy is too high, personal savings continue to grow and more and more people are faced with the problem as to what should be done with their further savings. Judging by the growth of the unit trust movement, many people have found an answer to this question. Even so, as the correspondent on the City pages of even the ordinary daily newspaper reveals, many others are anxious for investment advice.

To meet this growing demand the Consumers Association, responsible for the successful magazine *Which?* has now produced *Money Which?* This will appear quarterly at a cost of 30*s* to *Which?* subscribers only. The first edition of 48 pages provides a considerable body of information ranging from some simple guides setting out the relative merits of different classes of investment (e.g. national savings as against equities), a clear exposition of the effects of marginal tax rates on income, a useful explanation of the basis of charging interest rates in many current offers of sale of durable goods on extended credit, as well as a comprehensive review of the performance of share tipsters in the Press, and of unit trusts during the past year or two.

There is, in short, something for everybody and herein lies both the weakness and strength of the new publication. After all, a large proportion of the middle-class income group – particularly those sufficiently money conscious to subscribe to *Which?* – will be fairly well informed on the more obvious matters such as the true cost of borrowing and the merits of unit trusts or straight purchases of equities. Those subscribers who have not yet learned these elementary facts will certainly find the section on unit trusts somewhat heavy going, not least the table of relative performance.

It would be surprising, however, if this new publication did not add to the present half a million subscribers who already take *Which?* It will bring together a lot of useful material that is regularly published in the more specialized papers and weeklies and, at the same time, offer some impartial assessment. For the less sophisticated reader, however, there is the danger that the advice may appear – despite the appropriate qualifications – to offer a certain outcome. The principle of 'best buy' may be alright for cars and washing machines, but the present 'best buy' for investment may not, in the longer run, prove to be the best.

Women Certified Accountants' Cruise

INSTEAD of holding their usual annual dinner, the Certified Accountants Women's Society this year decided to have an evening cruise down the River Thames. This might not have been so novel and enjoyable for some, had it taken place after, rather than before, this week's disastrous storms and flooding. It was fortunate, therefore, that the trip was made on Friday of last week – on a cool, clear evening when the riverside landmarks and points of interest could be seen to advantage.

Not that the event was entirely without incident, however, for steering gear trouble necessitated an almost immediate return to the pier for transfer to another launch. However, encouraged and cheered by the Chairman, Miss Vera Di Palma, F.A.C.C.A., and her committee members, the change-over – with refreshments and even the decorative balloons – was effected without mishap.

Besides some 40 or 50 members, the Society's guests included Mr A. W. Nelson, F.A.C.C.A., F.T.I.I., a member of Council of the Association, and Mrs Nelson; Mrs O. J. Boulind, B.A., President of the National Council of Women of Great Britain, and Dr Boulind; Mrs Mollie Burgess, F.C.A., Chairman, Women Chartered Accountants' Dining Society, and Dr Burgess; Mr A. W. Morrison, F.C.A., F.A.C.C.A., President, Central London Society of Certified Accountants, and Mrs Morrison; Mr Arthur E. Webb, Editor of *The Accountant*, and Mrs Webb.

Miss Vera Di Palma, Chairman of the Certified Accountants Women's Society, (*third from left*) with (*left*) Mr A. W. Nelson, member of Council of the Association, and Miss Joan Denly, Secretary of the Society, and (*right*) ladies of the Committee.

The Chairman with (*left*) Mr and Mrs A. W. Morrison (*nearest camera*) and Dr and Mrs Burgess; and (*right – from front*) Mrs Boulind, Mr and Mrs Nelson, with Dr Boulind (*standing*).

EEC Tax Harmonization

IT will come as a surprise to many British critics of the UK tax structure to learn that in 1966 the proportion of the g.n.p. at factor cost absorbed by taxation, including social security contributions, i.e. 36·2 is lower than the EEC average of 38·8. But, as far as taxes alone are concerned, the figure is higher (30·6 per cent) than that of the EEC average (26·1 per cent) and that of every member country. The explanation of this apparent paradox is that social security contributions are two and a half times as high in the member countries compared with Britain.

These facts are disclosed in a new publication *Tax Harmonization in the European Community*, published by the European Community Information Service. The bulk of the brief document is concerned with turnover taxes, i.e. added value, excise duties and direct taxes. There is also a useful annexe on invoicing under the added value tax system. The discussion of turnover taxes is concerned with the problems of harmonizing such taxes, and illustrating their working. For anyone interested in this subject, this is a useful piece of source material.

This is My Life

by An Industrious Accountant

'ABOUT that accounting assistant you said you needed', began the personnel director, with an inquisitorial stare, 'how d'you plan to deal with the applicants? Presumably you've been in close contact with my assistant?'

The procedure didn't seem to me to be of momentous importance. When beggars die there are no comets seen, said Calpurnia, and the heavens don't blaze forth excitedly about the appointment of mere junior accountants. The drill had been well and truly established by years of precedent and little change was foreseen. So much I indicated with due imperturbability.

But Prinny seemed to have something on his mind. He coughed a slightly constrained hurrumph . . . ar . . . ar and brooded. He had the air of a man who was sorry he'd put his shirt on that outsider for the 3.30 but was still tempted to put his pants on as well. In which section of my department, he inquired, was the vacancy, and on learning that it was the general section that was below establishment, he commented that presumably the office manager would conduct the interviews.

Theoretically, possibly he should, I agreed, but in practice better not. The trouble with the office manager in the past has been that the candidates he favoured tended to be serious but uninspired young men with a tendency to spring to attention almost, when meeting their superiors. They listened earnestly to advice, worked hard and carried loyalty to the O.M. to the extent of agreeing that none of today's tuppenny-ha'penny half-hearted pokers could hold a candle to Jack Hobbs in his prime. No, preferably not the O.M. for the interview, I felt.

In response to further interrogatory noises from Prinny it emerged that a junior should be transferred from departmental accounts to fill the general office gap. Our policy was to broaden the base of experience for our up-and-coming young accountants, prying them out of ruts and familiarizing them with all aspects of the job. As the brochure of my correspondence college exhorted in my articled clerk days: 'Higher, higher, let us toil, up the heights of knowledge'. Young Terry, therefore, having learned all about trading sales and profits, would benefit by the change to clerical/administrative routines and would. . . .

Prinny leaned forward alertly to point out that this being so, the departmental accountant seemed entitled to select the most promising candidate. After all, senior chaps liked to pick their own teams. They were inclined to accept more responsibility for the youngster's progress thereafter – push them along, you know, and take an interest in them. Jolly sound basic principle . . . and so on.

He was right, I agreed, quite right. Chaps who got juniors dumped on them out of the blue could always shrug off mistakes later, claiming that one couldn't expect anything else with a nitwit like that on the job.

If only, however, it was anybody else but the departmental accountant! He likes a placid life. His ideal subordinate was one who didn't produce disturbing new ideas or revolutionary modifications to the budget lay-out, who was deferential to overbearing salesmen and accepted stock-in-trade adjustments without fussing about proper authorizations. Don't rock the boat was his pet motto.

Anyhow, I reassured Prinny, we were thinking of rotating J. J. from Costs to departmental accounts as a planned training move – subject to seeing how the best candidate might be expected to slot into our organization – so a final decision hadn't been taken yet. I'd probably see the short list myself before consulting finally with our section heads. Superficially the set-up might seem a bit involved, but basically it was quite simple, of course.

Prinny nodded sombrely, as if his outsider had come down at the first hurdle. We'd better have a get-together to review company selection procedures without delay, he said.

A National Commodity Code

The Way Ahead?

by Brigadier H. S. MITCHELL, C.B.E. (Retd),
formerly Director of the UK Central Codification Authority

The writer of this article, the subject of which is being discussed in Government circles as a matter for detailed study, thinks that the cross-roads may have been reached between tailor-made systems and common and standardized classification codes – as with computer languages. If compatibility is the key for computers in the 1970s, so it is for the source data that go into them.

THERE is increasing realization that with bigger and better computers in the offing the individual firms of a particular trade or industry will soon be able to co-operate in using a single computer installation. Whether they own the computer or use a bureau on a time-sharing basis and whoever they may rely on for expertise, software, and so on, it is generally accepted that for stock-control and other commodity applications, a common coding system is a prerequisite.

A feasibility study on trade and industry-wide codes has been undertaken recently by a firm of consultants commissioned by the National Computing Centre. The terms of reference called for 'unique coding' which by definition means one name and one number for each unique item. This means that identical items hitherto obscured by different numbers and often different names, have been revealed and assigned the one name and number.

This correct approach to the problem of multi-users, each of whom have their own methods and systems for identifying items of supply, particularly applies when item commonality between them is high. It throws out of court the easy 'solution' of a uniform data processing series of numbers superimposed on those of the user(s) to provide access to a computer – which is about all this easy solution does, although it is often proposed by systems analysts and their like in preference to a new system.

It is true that the codification task involved in identifying, classifying and coding the composite inventory to arrive at 'one item one number' throughout, is time consuming and can be costly. However, this one-time expenditure would easily be offset by the additional setting-up charge and running costs of using data processing numbers which have none of the advantages to management of the correct method, since they do not establish commonality thereby reducing the total number of 'different' items to be processed.

A national code

In a secondary requirement for this study, the National Computing Centre postulated a somewhat nebulous theory of a long-term need for a common code for all the products of industry. The concept appears to be one of large data banks of commodity information in a country-wide network for general reference – like the public library system. This is probably a long shot at some Government of the day sponsoring such a plan as a national requirement. It is realized that any plan for the collection, storage, search and retrieval of a mass of information input from remote terminals, linked to central computers by rapid data transmission systems, is some way off but the National Computing Centre is well aware that the data must be classified and coded in a uniform manner to a common system, hence the exploration on a national code.

Linking, in the same study, industry coding with a national system implies, however, a feasibility for a build-up in modular form of the latter from the sum of the former. Frankly, I do not think this is practicable nor, even in theory, viable. What is sauce for the goose will not do for the gander – the best for one industry will be the enemy of the good for another.

There are two main reasons for prefacing this article on a national code with comments on industry coding. The first is to get into perspective the magnitude of the task, even for the limited concept of providing access to computers. The second is to doubt the validity of a plan for a national code, the purpose of which only goes skin deep. Surely we must look much further and delve much deeper for a national requirement. Is there not a national appeal – some good, solid reason why industry as a whole should shout its accord and be willing to sacrifice a good deal in surrendering individuality to the common goal for the benefit of the majority? If so, is there a basic system which could meet the optimum requirement in preference to starting from scratch? I think there is, but first we must do the delving.

A national requirement?

Is there a need in industry and commerce for a common uniform method and system for the identification of all the products and material manufactured for use and sale in the United Kingdom?

In theory there certainly is, if for no other reason than that of the language problem. At present there are tens of thousands of different methods and systems in use for identifying items. Lack of uniformity in naming, causes many names for the one item but plain language for inventory management has now given way to notation by codes or numbers (there is a difference). The same item, therefore, in different concerns may have different names but will almost certainly have different numbers at least for internal inventory management. Proliferation of identification systems therefore obscures commonality.

The system of demand and supply is a gigantic conversation piece between users and suppliers – who are inter-dependent. The user or distributor having his own part-numbering system for management operations must convert from his own language to as many languages as there are suppliers to turn his requirements into orders.

The prime manufacturer has the whip hand and can name and number his items much as he pleases – except where standards are mandatory. Moreover, he can also change them at will – and does, for various reasons. The user must conform, and to give an example of the high rate of supercession, Central Ordnance Depot, Chilwell, stocking and distributing 270,000 itemized products of the motor industry for the maintenance of the vehicle fleets of all three Services, receives from suppliers 25,000 notifications of part number changes to existing items in one year. The resulting parts changes and amendments to computer files and other documentation for all customers is very costly, as indeed is the whole business of data interchange and item recognition, both to industry and commerce and to the nation.

A common language

Is it any wonder, then, that industry requires to inter-communicate in a form of Esperanto? But plain language is not sufficient these days so our 'Esperanto' has to be in code. Someone has defined coding as 'any system of symbols in the communication process, particularly a system which achieves some other desirable advantage over common language or numerical expression'. The other desirable advantage will vary according to the purpose of the code, but is in all cases the meaning or significance within the symbols for which the key to the code is the clue.

For our 'Esperanto' in industry we appear to be looking for a system which will replace the thousands of different part numbering systems in use and at the same time serve a different role of easy communication nationally – contributing to national sources of information for all concerned. It must therefore meet the requirements of individual managements for each and all users, if not for all purposes. Just as there are many forms of codes and systems, so there are many purposes and end uses; but we are talking here about commodity codes whose primary purpose is the identification of hardware – material, parts and components, finished products and goods of infinite variety.

A system is therefore required which will give an efficient base for inventory management to large and small concerns: one which will eliminate duplication and be an aid to rationalization for multi-unit groups in inventory control, design and production. For users and potential users of computers it must be capable of organizing data for recording and processing in a manner which will get the best out of the computer, and enable it to produce a comprehensive information service to satisfy both users and the national requirements.

Ideally, it should be able to stand on an assumption that each code number identifies one and only one item, and conversely that no item has more than one number. It should enable all items to be classified in a logical and uniform structure which must cater for the optimum. We want it to be easy and accurate in transmission by any means, in sorting, indexing and listing, and for data processing suitable for direct access without the need for any intermediate or superimposed data processing series of numbers.

The codification task

It has to be stressed, however, that system design is one thing but the codification of items into a new system is an inseparable task. This composite function of identification, classification and coding is simple when variety is narrow but as this extends it becomes more complex. It must be done in that order – one cannot classify before positive identification and naming, and code assignment follows classification.

Identicality can be a most complex subject. To a user, two items which vary only in finish may be identical for all purposes and therefore merit a single code number; but to the producer there is a separate operation, a variation in the specification and drawing, requiring in his view two numbers or, as so often occurs, a suffix. Again the identification process may describe from drawings the physical, mechanical, and electrical characteristics of two items to the full and find them identical, but they may have a variation in reliability on test, and a varying performance under different environmental conditions. How far does one go? The answer in codification is 'not too far and play safe when in doubt'.

It is not intended to discuss here the technology of codification but the work-load must not be underrated. In terms of the sort of concept envisaged, the experienced mind boggles at the thought of the national effort involved! Any system is only useful in the way it is implemented – no codification system is an end in itself and this does tend to be overlooked. The under-employment of computers in use now is said to be due to lack of thorough preparation and a clear understanding of integrated applications. The same mistake must not be made with a national code.

However, it is the theory which is being explored at present and we do, in fact, already have the basis for a national system in use in the United Kingdom. The code fits the general requirement of being all numeric, logical in construction, part significant and part sequential. This is the NATO Codification System now mandatory for Navy, Army and Air Force.

The NATO Codification System

After the Second World War the American logistics system was in disarray. In their four armed services (Army, Navy, Air Force and Marine Corps), they had twenty-seven different systems for identification of items of supply – different names for the same item, different classifications, and their part numbering systems varied in composition and in length. They had no knowledge of total items or of those used by more than one service because there was no common means of identification. Surpluses in one service could not be offset against deficiencies in another, which resulted in concurrent buying and selling of the same items. In war, the big crime in logistics is shortage of supply, so their stocks had built up to something like six million items, and one month at war usage could mean thirty years at peace rates for some stores.

For two years they planned a new Federal Catalog System with their usual intense attention to detail and President Roosevelt, foreseeing inter-service rivalry and probable opposition from the services and industry, made it mandatory in Federal law.

In the United Kingdom we were a bit better off – though not all that good since each of the services used different part numbering systems and catalogues; but Germany, France and Italy, and most of the smaller nations, were building and equipping new defence forces virtually from scratch, and therefore were in a good position to adopt a new system. In 1955 the US Federal Catalog System was selected as the basis for a NATO Codification System and in 1957 the United Kingdom agreed to 'go along with it'. (I use this phrase because we made little effort and provided only a few resources towards implementing the system until 1962, and it was not until 1965 that it was made mandatory for Navy, Army and Air Force.)

The purpose of the NATO Codification System is to produce a common supply language between the NATO countries for all equipment and stores used by their defence forces and between the different services of each country. Broadly, this is said to provide for each nation a means of co-ordinated procurement and improved provisioning through more effective knowledge of total stocks; effective utilization of total assets; reduction of effort and personnel, inventories and storage space; increased standardization and simplification by revealing varieties, types and sizes of items in the supply system; as well as improved Government/industrial relations by avoidance of requirements for one item being stated in different names and numbers by each service.

Cost reduction

What might this mean in terms of financial savings, apart from the obvious increase in logistical efficiency? Can the savings be quantified because accountants, finance directors and HM Treasury tend to believe in facts and figures rather than theories? They can, but only after the event when experience and costing effort can produce some answers – for particular organizations. For example, the Americans found that for every 1,000 items by which total US service inventories were reduced, \$1 million was the annual saving in operating costs. One cannot, of course, equate that figure directly to other organizations but it is an indication of the value of variety control on the costs of inventory management.

If we take other US claims after conversion of their service inventories to the Federal Catalog System and implementation of co-ordinated supply techniques, also as an indication, then these are worth printing in large letters and figures:

UNITED STATES EXPERIENCE

(i) Reduction in total inventory value – June 30th, 1957 – \$54·1 billion; June 30th, 1960 – \$44·1 billion.
(ii) Material interchange in lieu of new procurement (offering surpluses of one service to meet deficiencies in others) – 1957 – \$375 million; 1960 – \$2 billion.
(iii) Less storage space – 33 million sq. ft closed.
(iv) Operating costs reduced – \$1 billion annually.

These figures talk – in anybody's language!

For the UK – and bearing in mind that one-third of the capital invested in industry is in stock; that operating costs can amount to 25 per cent of inventory value; that it costs £50 for the paperwork alone to introduce a new part (1959 national estimate), and a similar figure to place a contract – it is unnecessary variety that must be attacked.

But variety cannot be dealt with until it is revealed in a form which allows for easy and precise comparison of like items. To this end, the NATO Codification System through the identification process discloses the permanent characteristics of items as necessary, which set side by side determine which are identical and what makes others different. Classification by affinity places all items in groups, each subdivided into classes so that families of similar items are brought together.

Since the NATO stock number denotes the group/class it gives 'form at a glance'. It provides the logical and uniform structure by which all data can be organized for recording, accumulation, analysis and presentation of facts for management.

The principles involved are simple. The basis of the NATO agreement laid down that each signatory nation would agree to:

(*a*) a single uniform classification;

(*b*) a single uniform identification;

(*c*) a single name and stock number for each unique item.

The NATO stock number itself provides uniformity, stability, simplicity and adaptability:

A NATO stock number . . . 3020–99–246–9872 is always a thirteen-digit number; is adaptable to all items; has Government control of numbers.

3020	99	246–9872
NATO supply classification code number	*NATO nation code number*	*National identification number*
Group 30 – mechanical power, transmission components *Class 3020* – gears, pulleys, sprockets and transmission chains	99 United Kingdom	Supports single item of supply

The system

The codification process is a complex and disciplined procedure, voluminous in instructional detail to ensure uniformity by the many different codification agencies and specialist codification contractors involved, but not difficult to apply once the details have been mastered.

Briefly, the information for item identification of ranged spare parts for new and existing equipments and of other unrelated stores, is obtained from manufacturers' design drawings or specifications. According to their nature, items are identified by a design reference or by a descriptive method. Stringent rules for naming apply. After positive identification each item is classified in one, and only one, of the classes of the NATO Supply Classification which goes pretty well across the board to accommodate product variety.

Screening of identification characteristics or references against all similar existing items to ensure the item is not a duplicate of one already in the system, is followed by assignment of stock numbers and promulgation. It is then the responsibility of the user service(s) to adopt and implement the new names and number, and the central codification library is up-dated.

To ensure uniformity in naming items, a glossary or index of items has been built up which includes some 25,000 approved names cross-referenced to about 30,000 colloquial names, with some 7,000 main definitions. This is the most comprehensive of its kind in use and, of course, is extendable. The method of naming may not be universally popular but if a common language is a valid requirement, uniformity in naming is essential.

To ensure uniformity of item identification by description a large number of description patterns were initially devised, and have been added to since, which set out in the form of a questionnaire the permanent characteristics of each closely related family of items. The codifier extracts the data for each item from source documents and answers the questions on an 'Item identification' form which then becomes the data input.

Items of peculiar or complex design – usually proprietory or of specialized use – are not described but are indirectly identified by the prime manufacturer's drawing reference/part number. To pinpoint the primary reference is one of the big problems as those of component manufacturers, for example, are so often obscured by the large equipment assembly firms who assign their own numbers thus causing duplication.

A central library

The item data produced in the codification process, forms a permanent record in support of the assigned NATO stock number. The defence Codification Authority is now reviewing all codified data and preparing it for computerization by a complex integrated application, for which attribute coding designed for denoting item characteristics and their variables, name codes, manufacturers' codes and a variety of action codes, together with reference and stock number codes, are all combined. The aim is to store this coded data in a number of files in one computer, with other information relative to item quality – as distinct from quantity – and provide a central library of item information to which all can refer. The computer will feed data to the supply computers responsible for stock control, provision and procurement, and retrieve answers to search queries.

An important application, not yet proven in the UK or elsewhere, is the screening by attributes of new items proposed for entry into service against existing items, to ensure positive new item entry control. This procedure requires analysis of all the characteristics and their variables for all items and a supplementary coding plan.

Search and retrieval of information from the central record will, it is hoped, be speedy and comprehensive for designers and standardizers, users, and suppliers, and for any NATO country wanting information about any UK item of supply.

It must be emphasized, however, that the system is dynamic. After a lengthy planning period the Americans have recently initiated their 'Federal Catalog System Improvement Program' covering a

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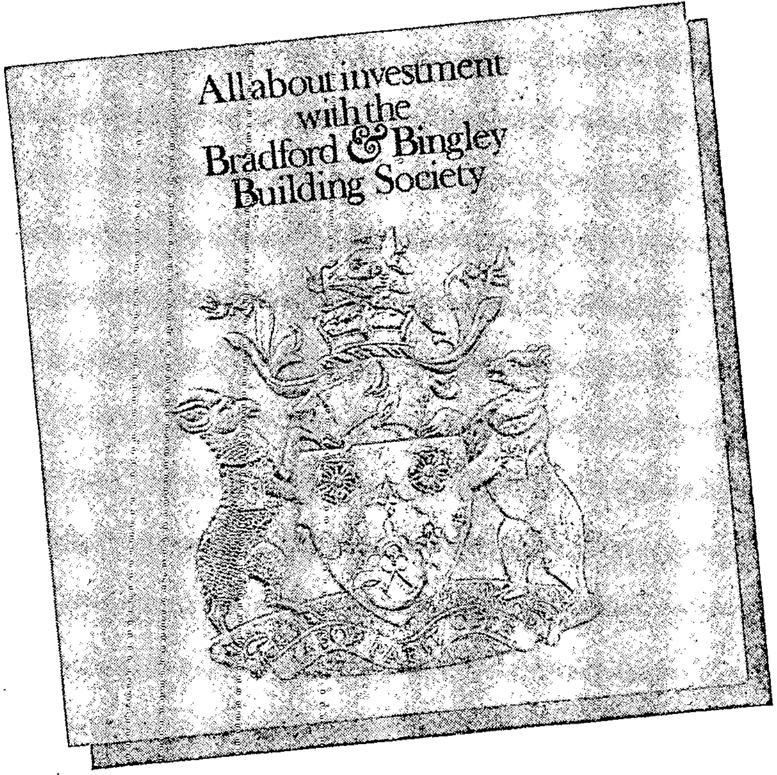

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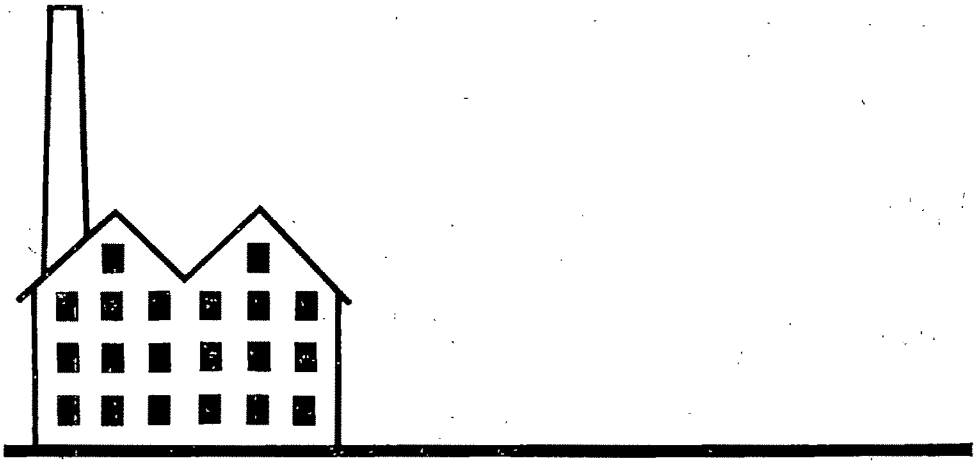

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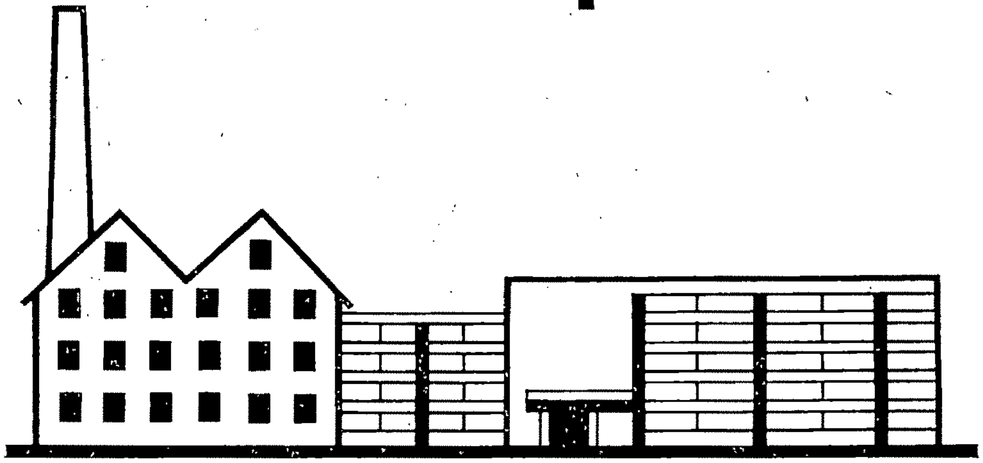

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very broad field, various facets of which may be adopted by other nations at their discretion. For example, the U.S. is superceding descriptive patterns by comprehensive 'Federal Item Identification Guides' giving much more information about items.

Limitations of NATO system

No system is perfect and no codification system can suit all purposes and all users. The NATO system was planned for the widest and most complex inventory under unified direction and control in the world. Ninety-nine, or more, per cent of the equipment and stores used by the defence services and to be covered by the NATO system in the UK, are manufactured outside this sphere of direct control. The main equipment suppliers in, for example, the motor, aerospace and electronics industries, who buy out 60 per cent and more of material and components for the assembly of equipments, are faced with similar problems to those of the defence services. They, too, have complex inventories and many suppliers, and would benefit from a common stores language.

Many of these companies and groups have, at present, highly significant coding systems which over the years have not retained uniformity because they could not absorb expansion and which would give any computer a headache. Something like the NATO system would, I suggest, be more suitable for their inventory management and supplementary codes would meet other requirements. It is significant that close on one million items supplied by the three industries mentioned above have already been NATO codified but the assigned NATO stock numbers are not used by them except as a necessary cross-reference to their own part numbers.

For instance, one large group has some 10,000 suppliers, each of whom have part numbers for the same items different from those used by the group. The group, since it is a large supplier to the Services, also has to cross-reference some 30,000 NATO stock numbers and a similar requirement applies to all those other customers who do not use internally the group's part numbers.

New groups formed by merger or take-over find they cannot rationalize effectively until they have one common stores identification system and have codified all items into it. This particular group, like others, has recently absorbed other companies. It has to achieve inventory rationalization by finding out which items throughout are identical, by a method such as that employed in NATO codification, then simplify the resultant range as far as possible. If this is not done, their central spares depot and maintenance service to all their distributors, agents, and customers, and their computerized central stock control and purchasing will have to cope with perhaps an extra 70,000 items or so more than it should. Production will be in shorter runs than need be and the extra effort and costs involved all round is a denial of profitability and efficient management. The group, of course, is well aware of this.

It may be found, however, that the smaller firms – those who design and manufacture a single product or only a small family of related products – would be antagonistic to adopting a national coding system, probably for a variety of reasons. The broad classification does nothing for them; the stock number is unduly long; they want more significance in it. They cannot finance the operation. Perhaps, also, some fear that equating their products with equivalents marketed by their competitors may prove to be detrimental to their own sales. Large producers will want – rightly or wrongly – more significance in the code and their own prefix for advertising purposes.

Any attempt, therefore, to persuade industry on a broad front to adopt a national code will invite stalemate through the clash of interests it will arouse. Over a period of, say, ten years of intensive research and objective planning it might succeed by bulldozing tactics, but is there not a more profitable field for extension in a limited field now?

Supply co-ordination

The most suitable classification and coding systems naturally are those designed to suit the purposes and management techniques of individual concerns. One, such as the NATO system, designed for specific purposes, will be most adaptable if extended in use for similar purposes and for the same type of users with complex inventories.

The general concept, I suggest, is one of 'co-ordinated supply' in which a number of individual concerns, hitherto autonomous at least in the field of management operations, are functionally integrated to make full use of the co-ordination techniques deriving from the establishment of a common supply language, typical of which are those outlined above as the aims and purposes of the NATO Codification System. The nature and role of potential users may vary from local government and the health and medical services, through the public sector featuring but not exclusive to the defence services, to the private sector in which there is tremendous potential.

The inter-dependence of supplier and customers is sometimes traditional and firm but often tenuous; yet in few cases is the linkage easy or strong enough to sustain the image of the 'seventies' – of computers conversing direct with one another and of national data banks for the benefit of all. Computer technologists theorize in this fashion and say that all will be well when they have the language problem sorted out but they are referring to the language of computers not to the source data with which those computers have to cope. 'One person's output is somebody's input' is the catch phrase. Fine, but not if the data has to be transposed from somebody's system to a different one two or three times before input and output mean the same thing.

The logistics of industry are difficult – far more so than they need be. Why should one manufacturer receive on the same day six orders from separate Government purchasing centres and a dozen from other customers, all for the same item but each bearing different names and numbers, requiring the supplier to vary his marking, packaging and invoicing accordingly. Not possible? It certainly is and they come worse than that at times. The cumulative costs of this sort of thing are hidden in the overall operating costs but hardly contribute towards reducing prices of goods supplied.

The way ahead?

Produce a common supply language and many things become possible. It would give credence to the National Computing Centre's concept of data interchange and central reference. For multi-unit organizations full utilization, rationalization and the harnessing of purchasing power through co-ordinated procurement of common categories becomes practicable and profitable. Much could be done in cross-servicing and in co-ordinating, distribution and transportation. For inventory management, variety reduction is the big money-saver. The use of standards would become more enforceable. This article can only touch the fringe.

A recent article in *The Director* said of innovation that it is the process of assessing new ideas and managing them through to commercial profitability. It also requires determination, patience and often an act of faith. A hard-headed HM Treasury perpetrated an act of faith in approving the full use of the NATO system for the Ministry of Defence, and I hope they think as I do about it.

Here is a ready-made system, carefully and intensively planned initially and accepted as a national system by sixteen countries, which has been co-ordinated and directed for over ten years by a panel of experts drawn from the NATO countries involved. Moreover, each country can benefit from the extensive and expensive research carried out by the wealthy initiator, since each can implement the system nationally in accordance with his own aims and resources. Extend its use, in modified form if necessary, to other fields to which it is best suited and this may start a snowball. It will take a long time, but start now – as are certain other countries.

The question to my mind is not 'can we afford it?' but 'can we afford not to exploit it to the full?'

Let's Go and Come Back

Our you-know-who, the 'let's go' man,
When he to rule our land began,
Made a decree
Doc. claimed would be
A trading gap corrective
The jobs in service to destroy,
On those of labour over coy,
To force them into works employ
Imposed a tax selective.

And I expect you'll all agree
That he was right to so decree.
Thousands of yobs
Would queue for jobs,
And all be right as right could be.

His object you'll allow was plain –
Increased production to obtain,
Thus to redress
The fearful mess
Inherited from Tory.
The tax effect would surely be
More goods produced more speedily
To sell for foreign currency –
A very happy story.

And you'll agree that he was right
To think employers would take fright,
And using axe
To dodge the tax
Help speed the economic fight.
But this decree it's sad to say
Did not work out in quite that way,
For at the start
Whole-time and part
Were equally affected.
At first employers stood aghast,
But then this tax, so very vast,
On customers was promptly passed –
They usually objected!

And you'll allow, as I expect,
That they were right to so object.
At prices high
They ceased to buy,
And everything was incorrect.

Two doctors with views opposite
Might hope that one of them prove right
If contraries
As remedies
Were set for us to follow.
The second, changing 'more' to 'less'
Caused unemployment in excess
(A million soon, is pundits' guess)
A dose that's hard to swallow.

But you'll agree, who leads the pack
In winds of change should swiftly tack,
And thus replace
The fall on face
By falling smack upon his back.

JOHN BRETT.

But is it Ethical?

3. On Publicity

CONTRIBUTED

This series of articles is based on the author's understanding of the usages of the profession as a whole and does not relate exclusively to any particular professional body. The opinions expressed are those of the author, and would not necessarily be endorsed by the governing bodies of the profession in a particular case.

A PROFESSION, like an elephant, is perhaps more readily recognized than described, and it is to be feared that not all attempts to define the essentials of professional activity have been happily inspired. But one feature which such generally-accepted professions as accountancy, medicine and the law all have in common is the prohibition of all forms of advertising, solicitation or touting for professional business.

Members of the recognized bodies of accountants have always been expected to observe this rule in spirit as well as in the letter, and to apply it also to the activities of firms or companies in which they may be interested. It would, for instance, be highly objectionable for an accountant to be actively interested in a company which advertised mechanized book-keeping or payroll services to the public at large.

Readers of *The Accountant* will hardly find it necessary for this prohibition to be justified *in extenso*. It will be remembered that a 'client', in classical times, was one who placed himself under the protection of another; and the establishment of a mutually satisfactory professional relationship demands something more than self-advertisement, which serves only to advance the particular interests of the advertiser.

Advertising is inimical to professional independence; it militates against continuity in the handling of clients' affairs; and it would increase practice expenses all round, without any commensurate benefit to either the community or the profession. And if dark tales are told of the manner in which some very distinguished practices were built up a century or more ago, as for instance by circulating business cards to debtors whose names had appeared in the *London Gazette* – well, let us all be thankful that things have improved since then.

Sub-contract work

One form of advertising against which the attitude of the governing bodies of the profession has noticeably hardened in recent years is that of practitioners seeking agency or sub-contract work. Whereas at one time the professional Press carried a number of such advertisements (which presumably were countenanced on the ground of being ostensibly directed only to members of the profession, and not to prospective clients), they are now for all practical purposes forbidden, and would be liable to evoke disciplinary action. The same rule applies to circularization of other practitioners for sub-contract work.

This development is sometimes resented by newly-qualified men as an unreasonable additional handicap when attempting to start a practice. Unfortunately, the concession whilst it existed was susceptible to abuse and was, in fact, abused by some established firms, with the inevitable result. It is still open to the accountant with surplus capacity to make a personal approach to other practitioners in his locality; but at what stage personal letter-writing – if repeated often enough in identical terms to a number of practitioners – becomes circularization appears not to have been officially decided. This is a matter on which different views are held, but the man who is tempted into seeking loopholes is liable to have his name remembered by his contemporaries in a manner not always to his advantage.

Advertisements for staff

Accountants may quite legitimately advertise for staff for their own offices, and are also sometimes instructed to carry out preliminary selection on behalf of clients. In such cases it is obviously necessary to give to prospective candidates some indication of the nature of their duties; but the emphasis should be towards such candidates and not to the name of the firm – still less to any specialized services which that firm may seek to offer.

In fact, any words tending to confer some advantage or particular distinction on the advertiser beyond the profession as a whole are regarded with disfavour; and whilst, for example, the phrase 'an international firm' would probably be tolerated if factually correct, references to 'leading', 'well-known', 'substantial practice' and the like should be avoided.

Previous articles in this series have appeared as follows – 'On Fees', August 10th issue, and 'On Gaining and Losing Clients', August 31st issue.

Similarly, in advertising for articled clerks or students, it is considered in doubtful taste to 'puff' the firm's record of examination successes. It is not possible to give an exhaustive list of all the circumstances in which a practitioner might incur professional censure for allowing undue prominence to his own name in such a context, although such matters as the space devoted to his advertisement in relation to other material on the same page, the type faces used, and whether the advertiser's name appeared more than once would certainly all be taken into account.

Personal advertisements

On the other side of the coin, any member of the recognized professional bodies is free to advertise when seeking full-time paid employment, but advertisements by the same individual for two or more part-time 'employments' would be liable to be regarded as an indirect means of soliciting professional work. Incidentally, an advertisement which is in itself professionally objectionable is not rendered innocuous by the use of a *nom-de-plume* or a box number.

There also appears to be an established concession (it is doubtful whether it has any other basis), permitting the name and professional designation of an accountant who holds an agency for a building society to be included in that society's literature. It may reasonably be anticipated that the accountancy bodies would react strongly to any attempt by a member to use this concession as an unfair means of attracting professional business, or to any form of publicity seeming to give undue prominence to the name of the member rather than to the affairs of the building society.

Except in the accountancy Press, such events as a change in the address or constitution of a firm are not proper matters for public announcement. The persons to whom such information is of legitimate interest are the firm's present clients and business associates, who will of course be individually notified.

Professional designations

A rather insidious form of personal publicity which is officially frowned upon is the use of additional descriptions purporting to a specialized expertise in some part of an accountant's work, or the proliferation of designatory initials of various kinds on professional notepaper; and a member of any recognized body who held himself out as, for example, an 'income tax expert' or a 'cost specialist' would be in considerable peril of disciplinary action. Members of these bodies are encouraged to use their own title without further embellishment and are also, in general, held responsible that any 'mixed' firm[1] in which they may be partners observes the same standards as those by which they themselves are bound.

Difficulty sometimes arises over the corporate title of a 'mixed' firm in which each partner holds a reputable qualification, as the word 'accountants' alone does not distinguish between qualified and unqualified practitioners. 'Chartered Accountants' is permitted if each partner is a member of one of the several chartered institutes, but 'Chartered and Certified Accountants' would imply that every partner held dual membership of both bodies.[2] It is perfectly in order for the letterhead of a 'mixed' firm to show after each partner's name the designatory initials to which he is personally entitled, whether or not the word 'accountants' is appended to the firm name.

The general description 'Accountants and Auditors' is occasionally seen: in fact, these words formed part of the official style of the Society of Incorporated Accountants until 1954, and mutely survive after the names of the distinguished minority still entitled to use the letters F.S.A.A. or A.S.A.A. Nevertheless, 'auditors' clearly indicates one particular type of work commonly entrusted to accountants in public practice, and as such would be open to objection.

There is nothing to prevent a practitioner who holds an appointment as an approved auditor under the Friendly Societies Acts from stating this fact on his letterhead if he so desires; but in such an event it should appear in full, the abbreviated form 'approved auditor' being open to misunderstanding by the public. As such appointments are personal to individuals, the title cannot be used as part of a firm name.

Other activities

Notwithstanding the general ban on attracting professional business by improper means, it is recognized to be advantageous to the profession for accountants to be seen to play their full part in public and local affairs. In reply to the question of what publicity may be permitted in the national or local Press, a useful general rule is that any *personal* distinction may be suitably reported, including a mention of the accountant's professional title, but that personal appointments should not be made a vehicle for *professional* activities. Except in the minority of cases where a dispensation may have been given by the professional society in question, an accountant in this situation is advised not to refer to the fact that he is in public practice (if such is the case), or to his firm name. Inadvertent publicity can be a serious embarrassment, and if a complaint is made the professional bodies are liable to ask what steps were in fact taken by the member to ensure that proper professional standards were observed.

In some cases – such as candidature for a national or local election – certain personal details are required by statute and these requirements must, of course, be observed.

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[1] This term is used as a convenient generalization for any firm of accountants in which the partners are not all members of the same professional body.

[2] The title 'Chartered and Incorporated Accountants' has a special, and in this context anomalous, significance under the 1957 Scheme of Integration. It is now of very limited application.

Published writings

An accountant who is also an author may reasonably wish to use his professional description as an indication of his competence to write on some particular subject, but should nevertheless take care to avoid giving the impression that his contributions are no more than an indirect means of keeping his name in the public eye. There has in fact been, within the past year, at least one reported disciplinary case as a result of a letter published in the general Press, which was held to be capable of interpretation as an advertisement for its author in his capacity as a public accountant. The interpretation of which the printed word is capable may not always be that which its author intended, and in any case of doubt it is as well to see a proof beforehand.

The professional bodies are sometimes invited by the Press to nominate one or more of their members to contribute to a feature on some topic of general economic or national importance. It is recognized to be desirable that such information should be seen to emanate from those best qualified to give it; the matter, in fact, becomes one of institutional rather than individual publicity and it is quite usual for consent to be given for the contributor's name and description to appear. It is most unlikely that, should the contributor be in public practice, any such consent would be given for the use of his firm name; unfortunately, it is not unknown for this information to be 'lifted' from another source, where an editor may not have fully realized (or perhaps even not accepted) the ethical implications.

Apart from cases of prior dispensation there appears to be a general rule that greater freedom to use name and description together is permitted in the professional Press than in the general Press, and to the non-practising member than to the practitioner.

There is no objection to an accountant, whether or not in practice, disclosing his name and description as the author of a textbook, pamphlet or other work of scholarship, such publications being addressed less to the public at large than to the serious student who is entitled to know the standing of his author. The prolonged gestation of even one textbook of acceptable proportions would also seem to make remote the likelihood of such a labour being undertaken from motives of personal publicity.

Mention of the needs of students prompts mention of the fact that tuition for the professional examinations is not normally regarded as 'professional business', so that an accountant who offers tuition may advertise the fact; but if tuition is combined with professional practice, he would run a definite risk of disciplinary proceedings if it appeared that the former were being used to promote or invite custom for the latter.

Some practising firms produce their own restricted-circulation booklets, including (to instance some actual examples), the addresses of the firm's branch offices and correspondents elsewhere, the services which the firm seeks to provide, or certain taxation hazards, for the exclusive use of the firm's own staff and existing clients. A great deal of ill-feeling can be aroused if one of these falls into the wrong hands, and a definite rule should be enforced that no such booklet may be given to a non-client save in reply to a direct and unsolicited request.

Accountancy as an organized profession in the British Isles is little more than a century old, and it may be this convenient date-line which has inspired a few firms to publish their histories. These are of comparatively minor interest outside the profession, and although they would be open to objection if 'pushed' to the general public, there is no suggestion that those who have so far committed themselves to such a venture are at all likely to do so.

Broadcasting

Radio and television programmes are a particular hazard. As a general rule, it is permissible to disclose *either* one's name *or* professional title, but the best course for any accountant who may be invited to appear in a programme is to consult his professional body at the first opportunity.

It appears to have been assumed in the past that it is undesirable for a member of the profession to be identified by name *and* description before a potential audience of several millions, but the official views are subject to some variation in particular cases. The answer may depend, *inter alia*, upon the content and relative public or professional importance of the programme, whether or not the accountant is in public practice, and whether he is likely to be presented as an 'expert' or 'specialist' in any field. Forewarned is forearmed, and it is not always easy to explain ethical considerations to the programme producer at the last moment.

Institutional publicity

The restrictions on personal publicity do not extend to 'institutional' advertising – that is, advertising undertaken directly by a professional body on behalf of all its members, or of the profession as a whole. The professional bodies have a legitimate interest in making more widely known the services which accountants can provide and the advantages of accountancy as a career, and a number of advertisements of this kind have appeared in the national Press in recent years.

The annual lists of members of most recognized societies of accountants are available for general reference through the medium of public libraries, the principal banks and elsewhere; but these bodies will not undertake to recommend any individual member or firm to an inquirer. To do so would be invidious, and might also infringe the rule against professing a particular specialization.

Equipment Notes and News

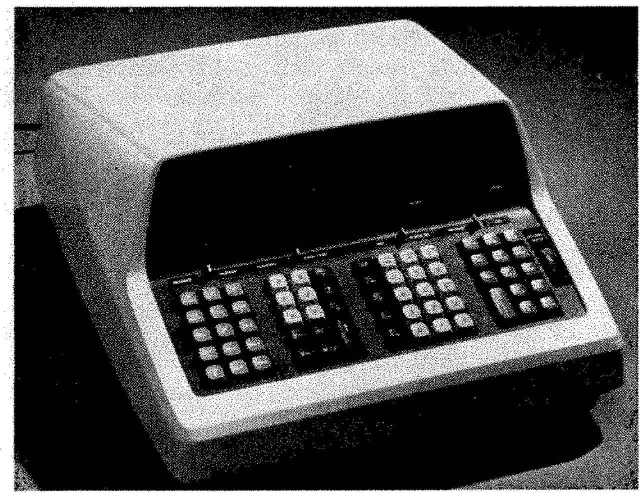
Electronic Desk-top Calculator

ALTHOUGH developed for engineers and scientists, a new electronic calculator from Hewlett Packard can be used by accountants for a number of business calculations. Depreciation schedules, returns on investments, discounted cash flow, stock-market calculations and economic order quantities are all jobs which can be dealt with in seconds by push-button programming.

The Model 9100A, although not possessing the storage capacity of a computer, has 14 small storage registers plus two calculating registers which, with three display registers, gives a total of 2,208 bits of core memory. In addition to this, up to 196 digits to each program can be fed into the machine from a magnetic storage card. Numbers are then keyed in from one of the four blocks on the keyboard. The figure block has a standard adding machine key layout together with add, subtract, multiply and divide keys and others suitable for algebraic expression.

There is also a fixed point or floating decimal point on the display panel with up to ten significant digits with automatic decimal placement. These can be set by a knurled wheel on the right-hand side of the machine.

The other banks of keys permit arithmetic, logarithmetic and trigonometric functions in degrees or radians to be carried out by pushing the appropriate button and operations are carried out in a matter of milliseconds.



Model 9100A Electronic Calculator.

Programs are written in plain language and the company claims that anyone with a knowledge of mathematics can be taught to write a program in a few hours.

The expected price is approximately £2,500 and delivery is about 90 days from order. In addition, an electrostatic roll printer will soon be available to mount on the top of the machine to give print-out of the display registers or for program listing.

Hewlett Packard Ltd, 224 Bath Road, Slough, Bucks.

Communications Training

ONE of the problems of modern business is that of training staff to make use of all the various devices for communicating such as dictating machines, teleprinters and computers to name but three.

In an attempt to help overcome some of these problems, Progressive Business Administration Ltd have set up a Training Centre at Bromley, Kent, to train operators in data creation and transmission on such equipment as private wire teleprinters and centralized dictating systems. This enables small companies without the facilities for training their own staff to send them to gain experience of a wide variety of data transmission methods.

Larger companies can also benefit from these services, or from the advisory service which is offered on methods of improving the company's communications department.

Progressive Business Administration Ltd, 6 Queen Street, London W1.

Light Touch Manual Typewriter

DESIGNED to reduce fatigue to the minimum, a typewriter just introduced has a special linkage system from the keyboard to the keys, so providing a light, responsive touch. This machine, the Remington 24D Standard, is in a 'Cycolac' lightweight casing which is modern in styling and made from scratch-proof plastic to simplify cleaning.

The machine has a 45-key keyboard with interchangeable typebars to allow technical or foreign language type to be fitted, and also has perfect positioning scales. The price of the 15-inch carriage model is £95.

Remington Division Sperry Rand Ltd, 65 Holborn Viaduct, London EC1.

New British Computer Company

FORMED by an amalgamation of two existing companies – Bismec Computers Ltd and Systemation Ltd – a new company called Business Computers Ltd are predicting sales of over £1 million in the home market during the coming year.

The new company will take over the sales of the SADIE and SUSIE electronic accounting and stock updating machines which are made in factories at Hove and Portslade, in Sussex, and which have sold rapidly since their introduction.

The joint managing directors will be Messrs W. E. Heselton and W. F. Gannon who were previously managing directors of the two separate companies.

Copying Bureaux throughout Britain

ENCOURAGED by the success of their copying bureaux in London, Birmingham and Manchester, Rank Xerox Ltd are opening or have now opened bureaux for this type of work in the following towns and cities: Belfast, Bristol, Cardiff, Chelmsford, Croydon, Dublin, Edinburgh, Glasgow, Leeds, Leicester, Liverpool, Luton, Nottingham, Sheffield and Southampton.

Each bureau will be using the new 3600 model copier/duplicator capable of making and sorting a print every second. This service will be useful for copies of reports, minutes of meetings and so on which may be uneconomic to duplicate and collate in the office. Six copies of a 15-page report can be duplicated and collated ready for stapling in less than two minutes for 48*s* 9*d*; or 70 prints from a single original would cost about 13*s*.

Two grades of service are offered, a special 'instant' copy service, or a standard service under which copies are ready for collection within two hours.

Rank Xerox Ltd, 338 Euston Road, London NW1.

Printing Calculator

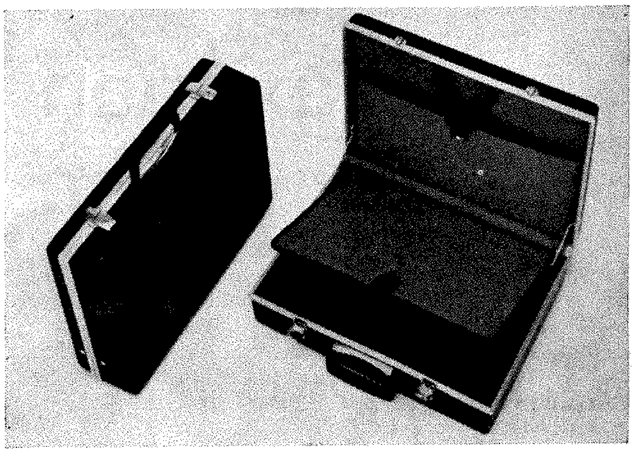
AT £340, the new Monroe 570 is a printing calculator which appears remarkably cheap for the work it will perform. It is simple to operate with a ten-figure keyboard, the zero being extended for thumb operation. The listing capacity is 10 digits, the totalling capacity is 15 digits, and it operates at 800 r.p.m. for multiplication and at 200 r.p.m. for addition, subtraction or division.

The sum is set as it would be written, and then all steps of the calculation are printed in black, whilst all answers are in red. There is automatic separation of each calculation by spacing, whilst a single multiplication can be carried out without disturbing the total or having to clear the machine.

There is also no need to reset the number if it is to be used again for multiplication as it is automatically constant, whilst multi-factor multiplication and accumulation (such as length by width by height) can be done to give individual answers and for showing a grand total.

Litton Business Systems Ltd, Litton House, Goswell Road, London EC1.

The new Monroe 570 printing calculator.



Topper's SM2 17″ × 12″ × 4½″ Case. This is just one from Topper's wide range of general and special purpose 'cases for industry'. It is moulded in 'Royalite' – UniRoyal's tough ABS thermoplastic – and lined throughout in fabric-backed PVC. There is a foolscap-file size pocket in the lid and a handy writing 'table' that is detachable from the case. An aluminium tongue and groove valance, strong lid stays, Cheney spring lock and comfortable handle complete a case suitable for the auditor or travelling accountant. Price £9 3s; quantity discounts are given on orders for six or more cases.

Topper Cases Ltd, Marshgate Trading Estate, Taplow, Maidenhead, Berks.

Magnetic Ledger Accounting Machines

LEDGER cards with magnetic stripes on the back are not new, although only recently have they become available in Britain, but NCR consider that their potential is so great that they have started production at their Dundee factory of a new model, the 400.

The speed and versatility of this machine is due to the rather unusual programming of instructions on to a Mylar loop of tape. This makes it unnecessary for the machine to perform a mechanical cycle in order to pick up fresh instructions. It also reduces the chance of error by compelling the operator to work in a predetermined sequence.

The tape loop, which can be of any length, can also contain factors and other data that may be required during processing. Used in conjunction with a print format bar, it enables the machine to be switched from one application to another in a matter of seconds. A further advantage of the external programming system is that it frees the magnetic disc memory for other purposes. Since the disc can hold as many as 80 totals, each consisting of 13 digits, a great deal of analysis can be done during a posting run.

Optional extras include a standard punched card reader for reading in factors and other data, and a tape punch for tape output that may require further computer processing. Because of its built-in £*sd*/decimal logic and flexible printer, the 400 can be programmed to operate in either currency and will need no mechanical conversion after D-Day.

National Cash Register Co Ltd, 206–216 Marylebone Road, London NW1.

Taxation Case

A full report of the case summarized in this column will be published, with Notes on the Judgment, in the 'Annotated Tax Cases'

Minister of Labour *v.* Pirelli General Cable Works Ltd

In the High Court of Justice (Queen's Bench Division) – July 23rd, 1968

(Before the LORD CHIEF JUSTICE (Lord PARKER OF WADDINGTON), Mr Justice MELFORD STEVENSON and Mr Justice BRIDGE)

Selective employment tax – Premium – Electric cable manufacturing – Installation of cables – Joining of cables – Whether part of manufacturing process – Selective Employment Payments Act 1966, sections 1, 2 – Minimum list headings 362, 500, 602.

The company had an establishment at which 60 men were employed for the purpose of installing electric cables of very high voltage. The cables were taken to the site on drums, removed from the drums, joined together and laid in trenches. It would take a day for three men to prepare to make a join; it would take them 24 hours to do so; and the men afterwards had 24 hours off. The joining process involved removing the insulating material, and joining the two ends of the core together, with the necessary insulation inside and outside. It had to be carried out in shelters kept dry and warm. When the cable was being manufactured, oil was forced under pressure through the cable as a cooling agent. A loss of oil and pressure occurred during transport and in making the join, and oil under the requisite pressure had to be forced in, so that there might be a continuous flow of oil from one end of the cable to the other. When the joining had been completed, the cable was laid in trenches which were dug by sub-contractors, who also filled in the trenches.

The company contended that these operations came under minimum list heading 362, which, it was conceded, had to be read as 'manufacture of insulated wires and cables'. For the Minister it was contended that the case was under heading 500 (construction). The Industrial Tribunal decided in favour of the company.

Held: the Tribunal's decision was correct.

Finance and Commerce

Teleflex products

SIMPLY reading the profit and loss account in this week's reprint of the 1967 accounts of Teleflex Products Ltd will show that a lot went radically wrong during the year. Last November, within a few weeks of the end of the financial year pre-tax profits were forecast at £75,000 and the actual result of a loss of £610,908 means a variance of £685,908 between forecast and fact. The directors' report reconciles the difference this way:

		£
Provision for doubtful debts in subsidiary companies and indemnities		261,417
Stock adjustment		252,494
Reorganization expenses		34,014
Loss on sale of materials handling division		95,273
Preliminary expenses of a subsidiary company written off		1,955
Provision for adjustment of prices on prior year's contracts		22,000
Provision for claim by former employee of subsidiary company		4,250
		671,403
Less Allowed for in estimate:	£	
Loss in respect of subsidiary company not consolidated	15,000	
Reorganization expenses, including loss on sale of materials handling division	39,350	
		54,350
		617,053
Overestimate of stock value of a subsidiary company (Arens Controls Ltd)		56,284
Difference between estimated and actual trading results		12,571
		£685,908

Stock adjustment

Explaining the position, the directors' report states that the liquidation of subsidiaries in Spain, Italy, Germany and France resulted in severe capital and revenue losses on the following basis:

	Trading losses and provisions	*Capital losses and provisions*
	£	£
Teleflex Espanola SA	24,472	42,333
Matin Dynamics SPA (including parent company guarantee of bank overdraft)	179,385	17,147
Matin Dynamics GmbH	46,386	1,810
Matin Dynamics SARL	11,174	7,340
	£261,417	£68,630

The four companies were set up to market the company's products in Europe but 'this policy has proved to be erroneous as a result of failures by local management and

You often get asked about sources of long-term capital.

Where do you go?

You couldn't do much better than come to us at Charterhouse Industrial Development. We're in business to make your business a great deal easier.

As a member of the Charterhouse Group, we offer services that meet the long-term capital needs of expanding private companies.

Not only companies which intend to stay private; but also those whose aim is to become public before long. This means that we are particularly interested in companies earning pre-tax profits of between £30,000 and £100,000 with prospects of still further development.

We don't seek control, we seek only a minority interest obtained by buying shares from existing proprietors or subscribing for new shares. And we can support that interest with long-term loan capital.

Nor do we seek to change the management. Where we find good management we think it makes good business sense to back it. Wouldn't you agree?

The next time you're asked to find development capital contact Mr. R.A. Dauney at:
Charterhouse Industrial Development Co. Ltd.,
1 Paternoster Row, St. Pauls, London, EC4
Telephone: 01-248 3999 or Mr. R.F. Sammell,
Beaufort House, Newhall Street, Birmingham 3.
Telephone: Central 4936

CHARTERHOUSE GROUP

A Stock Exchange Quotation?

ADVISORY SERVICE FOR PROPRIETORS OF PRIVATE COMPANIES

The problems of company proprietorship are greater today than at any time in Britain's industrial history. Family owned concerns and other private companies face formidable difficulties, especially in respect of taxation, company legislation, finance and the retention of profits within their business.

The impact on private companies and on their shareholders of restrictive legislation and high company and personal taxation may frequently be reduced by converting private concerns into publicly quoted companies. This may secure additional advantages—for example easier access to the capital market as a source of further funds and the use of quoted securities to effect acquisitions.

In certain circumstances, however, it may not be in a company's best interest to obtain a stock market quotation and in that event the advice would be not to proceed.

For directors and shareholders of private companies the decision on going public is such a crucial stage in their company's development, that impartial and expert advice clearly can be of inestimable value.

As Merchant Bankers, Singer & Friedlander have considerable experience and judgement in both private and public company matters, especially in assisting private businesses in becoming public companies, and of the detail and advisability of proceeding on such a course. Aided by their provincial operations and their wide industrial contacts Singer & Friedlander have developed a particular knowledge of the problems of the private company and of its shareholders. They are also able to provide a realistic and up to date opinion of the market value of private companies.

Directors of companies whose profits exceed £125,000 per annum are therefore invited to contact Singer & Friedlander for informal and impartial discussion. Fees become payable only when a transaction is agreed upon and completed.

Companies whose profits are between £50,000 and £125,000 will also be advised. In some of these cases it may be that a suitable merger would be advocated in order to achieve a swifter and more effective public flotation.

All enquiries will be treated in absolute confidence and will be dealt with by a Managing Director. Please address your initial enquiries to the Managing Director named below at any of the Singer & Friedlander offices shown:—

SINGER
&
FRIEDLANDER
LIMITED

A. N. Solomons, 20 Cannon Street, London E.C.4. STD 01-248 9646
M. C. Stoddart, 123 Hagley Road, Edgbaston, Birmingham 16. STD 021-454 2247
M. C. Stoddart, 38 Bridlesmith Gate, Nottingham, NG1 2GQ. STD ONO 2-51376
B. H. Buckley, Westminster House, Park Row, Leeds 1. STD OLE 2-38073

partly because of insufficient financial and administrative control by the parent company'. The companies are being liquidated and, particularly in the case of the Italian company, the ultimate liability has not been finally assessed.

On the subject of the stock adjustment the directors state that 'it became apparent' last December that stocks required a full and detailed investigation and this revealed a difference of £129,575 between the book figures and physical stock. The directors had previously had a report on the general stock position in March 1967 'and took the view, which was subsequently proved wrong, that the control figure for stocks on hand was acceptable'.

The true position was shown 'as a result of further inquiries undertaken by the consultants and by the auditors in December 1967'. In addition £122,919 has been written off obsolete stocks and the board is now satisfied that the stock value in the accounts is 'realistic and acceptable'.

Terminal losses

The materials handling division, it is stated, was involved in complex high value contracts and it proved impossible to discontinue trading without facing heavy terminal losses. The accumulated losses from this business over the last ten years have been of the order of £500,000 before taking into account the terminal loss of £95,273 of which £67,500 is a provision in connection with completion of outstanding contracts. The business has now been sold and outstanding contracts virtually completed.

The payment of £4,250 to a 'former employee of a subsidiary' refers to the settlement of two actions started in 1966 by Mr L. S. Brown against Arens Controls Ltd before it became a Teleflex Products subsidiary. Mr W. N. H. Orr who resigned as chairman after the last annual meeting is not, for health reasons, seeking re-election as a director. Mr J. A. Smith resigned as managing director in July 1967 but his successor Mr H. W. O. Walker was not appointed until last February.

Messrs Peat, Marwick, Mitchell & Co accepted an invitation to act as the company's consulting accountants from April 24th, 1968, and have been appointed auditors in place of Prideaux, Frere, Brown & Co, who did not seek reappointment. The P.E. Consulting Group was engaged to review and report on the trading activities of the company. The greater part of their recommendations has been implemented with the aid of a resident consultant and this has contributed to a reduction in overheads of approximately £200,000 a year. Factory reorganization and closure has resulted in the surplus referred to in note 6 to the accounts.

Trading profitably

At the end of the report the directors state that they believe that the company is putting the mistakes of the past behind it. A full stock-taking in the UK companies was carried out at the end of last June and the board is satisfied that for the first six months of the current year the group has traded profitably. They are also confident that as a result of the reorganization and on the strength of orders received the profitable trend recorded for the first half of the year will be maintained during 1968.

In a short statement with the accounts the new chairman Mr D. S. Robinson, foresees no reason why 'by a combination of good products and good management, profitable trading should not be restored and maintained now that the situation which has been allowed to develop in recent years has been analysed and corrected, albeit at great cost and with such disappointing impact upon those who have invested in the company'.

The company makes cable controls, safety harness and window operating gear and serves the aircraft, vehicle, marine engineering and building industries. When the £75,000 profit forecast was made last November the severity of the overseas subsidiary and stock positions were obviously not fully known. It was not until June 10th that the full position was revealed and also the fact that Peat, Marwick, Mitchell & Co had been called in as consulting accountants.

TELEFLEX PRODUCTS LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT 31st DECEMBER 1967

		1967		1966	
	Notes	£	£	£	£
Fixed Assets	(3)		997,410		722,365
Subsidiary Companies not consolidated:	(4)				
Shares at cost less amounts written off		—		68,630	
Amounts receivable less provisions		25,104		99,048	
			25,104		167,678
Trade Investments at cost			11,120		32,850
Preliminary expenditure of Subsidiary Company			—		1,955
Current Assets					
Stock and Work in Progress at or under cost		980,179		1,176,142	
Debtors and Prepayments less Provision for Doubtful Debts		1,126,373		1,008,746	
Cash at Bank and in Hand		9,781		16,516	
		2,116,333		2,201,404	
Deduct:					
Current Liabilities and Provisions					
Creditors and Accrued Charges		865,272		666,116	
Current Taxation		15,458		128,198	
Corporation Tax payable 1st January 1968		—		68,062	
Bank Overdrafts (£856,751 secured)		876,763		546,807	
Proposed Dividend		—		35,814	
		1,757,493		1,444,997	
Net Current Assets			358,840		756,407
			£1,392,474		£1,681,255
Representing					
Share Capital	(5)		1,023,260		1,023,260
Reserves	(6)		310,423		633,397
Minority shareholders' Interest	(2)		32,012		24,598
Tax Equalisation Account	(11)		26,779		—
			£1,392,474		£1,681,255

The Notes on pages [386 to 387] form part of this Balance Sheet

TELEFLEX PRODUCTS LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED PROFIT AND LOSS AND APPROPRIATION ACCOUNT FOR THE YEAR ENDED 31st DECEMBER 1967

	Notes	1967 £	1967 £	1966 £	1966 £
Trading profit for the year			121,819		287,833
Expenditure and allocations					
Depreciation		54,337		71,719	
Audit fees		4,306		3,077	
Directors' remuneration:					
Fees		2,510		1,354	
Management		14,427		21,087	
			75,580		97,237
			46,239		190,596
Exceptional and non-recurring expenditure/(income)					
Provision against amounts receivable from Subsidiary Companies	(4)	103,917			
Provisions for Indemnities in respect of Subsidiary Companies	(4)	157,500			
Stock Adjustment	(7)	252,494			
Reorganisation expenses	(8)	34,014			
Loss on sale of Materials Handling Division	(9)	95,273			
Preliminary expenses of a Subsidiary Company written-off		1,955			
Provision for adjustment of Prices on prior years' contracts		22,000			
Profit arising from devaluation		(10,006)			
			657,147		—
Loss (1966 Profit) before Taxation			610,908		190,596
Deduct Taxation recoverable (1966 Payable)	(10)		55,957		74,618
Loss (1966 Profit) after Taxation			554,951		115,978
Add (1966 Deduct) Minority Shareholders' Interest	(2)		3,497		4,258
Loss (1966 Profit) attributable to the Company (£520,599, 1966 £70,545, being dealt with in its accounts)			558,448		111,720
Deduct (1966 Add): Undistributed profit brought forward	(11)	128,625		110,196	
Transfer from General Reserve		180,000		—	
Dividends		—		(66,512)	
			308,625		43,684
Loss (1966 Profit) carried forward					
The Company		254,231		86,368	
Subsidiary Companies		(4,408)		69,036	
			£249,823		£155,404

The Notes on pages [386 to 387] form part of these Accounts

NOTES ON ACCOUNTS

1. **Subsidiaries**

The consolidated accounts for the year ended 31st December 1967 deal with Teleflex Products Limited and the following subsidiary companies:—

Arens Controls Limited.
Arens Universal Controls Pty Limited.
Bristow and Haldane Limited.
Conveyor Construction & Engineering Co. Limited.
Corsemarts Electrical Engineers Limited.
Holmethorpe Plating Works Limited.
Matin Dynamics Limited.
Solace Engineering & Electrical Co. Limited.
Teleflex Svenska AB
T. T. Mouldings Limited.

2. **Minority Shareholders' Interest**

The minority shareholders' interest referred to in the consolidated accounts relates to:—

Arens Universal Controls Pty Limited.
Corsemarts Electrical Engineers Limited.
Solace Engineering & Electrical Co. Limited.
Teleflex Svenska AB

3. **Fixed Assets**

	Cost or Valuation £	Depreciation £	Net Book Value £	1966 £
A. **The Group**				
Freehold Land and Buildings	442,415	—	442,415	301,003
Leasehold Land and Buildings	279,814	—	279,814	75,099
Plant, Machinery, Fixtures and Motor Vehicles	765,167	489,986	275,181	346,263
	£1,487,396	£489,986	£997,410	£722,365
B. **The Company**				
Freehold Land and Buildings	30,604	—	30,604	38,680
Leasehold Land and Buildings	279,814	—	279,814	75,099
Plant, Machinery, Fixtures and Motor Vehicles	487,194	339,740	147,454	223,332
	£797,612	£339,740	£457,872	£337,111

U.K. Land and Buildings are included at the Directors' valuation at 31st December 1967. No provision has been made for liability to Corporation Tax which might arise on realisation at this valuation.

4. **Subsidiary Companies not Consolidated**

Four overseas subsidiary companies, namely Teleflex Espanola SA, Matin Dynamics SPA, Matin Dynamics GmbH and Matin Dynamics SARL are in the course of liquidation and their accounts have therefore not been consolidated. The comparative figures for 1966 have been adjusted accordingly.

In the opinion of the Directors the balance of the investment in these companies amounting to £68,630 is irrecoverable and this has been written-off Capital Reserve. A provision of £103,917 has been made for that part of the current accounts considered to be doubtful Provisions totalling £157,500 have been made under indemnities in respect of the bank overdraft of Matin Dynamics SPA and a loan to Teleflex Espanola SA which cannot at present be accurately calculated.

TELEFLEX PRODUCTS LIMITED AND SUBSIDIARY COMPANIES

NOTES ON ACCOUNTS

5. Share Capital

	1967 £	1966 £
Authorised:		
4,400,000 Ordinary Shares of 5s. each	1,100,000	*1,100,000*
Issued and fully paid:		
4,093,040 Ordinary Shares of 5s. each	1,023,260	*1,023,260*

6. Reserves

	The Company 1967 £	The Company 1966 £	The Group 1967 £	The Group 1966 £
Share Premium Account	31,050	*31,050*	31,050	*31,050*
Capital Reserve:				
At 31st December 1966	95,842	*101,316*	266,943	*104,974*
Profit/(Loss) on sale of trade investment	(724)	*16,052*	(724)	*16,052*
Surplus on revaluation of property	198,689	—	324,584	—
Amount written off investments in subsidiary companies	(68,630)	*(18,142)*	(68,630)	*(18,142)*
Costs of acquisition of Arens Controls Limited	—	*(3,384)*	—	*(3,384)*
Arising on consolidation	—	—	1,666	*167,443*
Profit arising from devaluation	—	—	5,357	—
	£225,177	*£95,842*	£529,196	*£266,943*
Revenue Reserves:				
General Reserve at 31st December 1966	180,000	*180,000*	180,000	*180,000*
Less: Transferred to Profit and Loss Account	180,000	—	180,000	—
	—	*180,000*	—	*180,000*
Profit and Loss Account	(254,231)	*86,368*	(249,823)	*155,404*
	(254,231)	*266,368*	(249,823)	*335,404*
Total Reserves	£1,996	*£393,260*	£310,423	*£633,397*

7. Stock Adjustment

As a result of the reorganisation being carried out by the company a complete stock check was made which revealed a difference of £129,575 between the book figures and physical stock. In addition a detailed review has also taken place in respect of obsolete stocks, which has resulted in writing off £122,919. It has been considered appropriate to charge these amounts as exceptional and non-recurring expenditure.

8. Reorganisation Expenses

These comprise redundancy payments (£14,311), consultancy charges (£10,853) and compensation for loss of office paid to a Director (£8,350).

NOTES ON ACCOUNTS

9. Loss on Sale of Materials Handling Division

This comprises a provision for completion of outstanding contracts (£67,500), redundancy payments (£15,965), loss on sale of stock (£26,808), less a payment received on sale of goodwill and drawings (£15,000).

10. Taxation

	1967 £	1966 £
Corporation Tax on profits of the year	—	*66,840*
Overseas Taxation	7,282	*2,008*
	7,282	*68,848*
Add/(Deduct) Taxation Adjustment	(63,239)	*5,770*
	(£55,957)	*£74,618*

11. Undistributed Profit Brought Forward

Stock and investment reserves of Teleflex Svenska AB, which are intended primarily to reduce the incidence of Swedish taxation, are included in undistributed profits. A provision of £26,779 has been made for taxation which would be payable in the event of the release of these reserves. As this relates entirely to previous years this provision is charged by adjustment of the undistributed profit brought forward.

12. Options

At an Extraordinary General Meeting held on the 22nd December 1964, the Directors were authorised to grant options over 163,252 Ordinary Shares of 5s. each in the company to certain Directors and certain Senior Executives. Such options were granted in 1964 on 147,400 shares, at a price of 11s. 10d. per share. Options have lapsed on 53,800 shares.

13. Contingent Liabilities

There are Contingent Liabilities in respect of indemnities given by the company to its Bankers in the normal course of trading amounting to £65,846 (1966 £68,169). The company has guaranteed bank overdrafts of subsidiary companies to the extent of £49,250 (1966 £48,000), together with any investment currency premium payable thereon. The company has also given an indemnity of £60,000 in favour of a Spanish company which has guaranteed a loan to Teleflex Espanola SA and which in turn, through an associated company, owes money to Teleflex Espanola SA. The liability cannot be quantified until the outcome of the liquidation of Teleflex Espanola SA is known, and negotiations proceeding in Spain are completed. In the opinion of the Spanish legal adviser it is unlikely that any claim for full payment under the indemnity liability will ultimately arise but a provision, which in the opinion of the Directors is adequate, has been made.

14. Rates of Conversion

Foreign Currency has been dealt with as follows:—

(*a*) Overseas investments and advances have been converted at the cost in sterling at the dates when the investments and advances were made.

(*b*) All other items have been converted at the rates of exchange ruling at the Balance Sheet date.

15. Investment Grants

Investment Grants recoverable by the Group for the year are estimated at £3,786 (1966 £12,441) including £1,448 (1966 £7,948) for the company, and have been deducted from the cost of the relevant assets.

CITY NOTES

CONTINUING discussion on the subject of whether or not the equity market can justifiably go higher does at least suggest some degree of returning realism. In inflationary times even realism is relative and those who consider that present equity prices are too high are still prepared to acknowledge the point that justification and performance are not necessarily the same thing.

One London stockbroking firm, which has taken a bearish line on the equity market for some months, now makes the point in its admittedly pessimistic survey that bull markets are invariably ended by Government action – Government economic action that is. All the time there is no Government action, the brokers, despite their basically bearish view, are still prepared to see the market 'overshoot'.

Another view on the opposite tack is that – but for ddividen limitation – industrial dividend payments and prospects would justify the present pitch of prices at least and would even justify a further advance. It is sad to find a firm of stockbrokers, having worked 'earnings' to death as a driving force in the equity advance, now turning back to dividends for stimulus.

It seems decidedly wishful thinking to imply that a share standing at, say, 40*s* and fully valued on a price earnings basis is really worth 45*s* because the dividend is not as good as it might be.

* * * *

WHAT surprised the City at large about the decision of the banks to close on Saturdays from the middle of next year was that it was so suddenly announced. To achieve the element of surprise on a subject which has been debated for so long was at least something. That the content of the announcement was a shock rather than a surprise to most people showed that the banks' public relations on the question of Saturday closing had not been exactly brilliant. Within the banks it had been accepted for some time that Saturday closing would have to come and, had people been gradually conditioned to the idea, the shock would not have been so great.

The Scots and the Northern Irish have managed to survive without Saturday banking and the English and Welsh will probably survive as well, but the system of longer hours on the five working days must be realistic and must be in line with the needs of bank customers and not entirely with the needs of bank employees. The banks must acknowledge that at least some of their customers are right some of the time. The banks have certainly achieved one thing by their Saturday decision. They have given the Post Office Giro no end of a boost.

* * * *

THIS week the City has been waiting with as much patience as it can muster for the terms of the General Electric-English Electric merger. During the waiting period there has been considerable discussion on the Government's attitude towards those sometimes contradictory bodies the Industrial Reorganization Corporation and the Monopolies Commission. IRC's argument that the merger company is only in monopoly at points where the principal customer is also a monopoly and, therefore, one monopoly cancels out the other, is a nice argument and was accepted by the Government as such.

Accepted also was IRC's offer of merger assistance to companies which felt the need to get together defensively against the competition of the new power in the electrical and electronics industry. It is intriguing to note the Government's undertaking to scrutinize any indications of misuse of the merged company's monopoly and near monopoly positions.

Does this mean that if the merged company is, by its efficiency, able to undercut its competitors it will have to keep its prices high so that other smaller groups will be able to compete? If GEC-English is able to cut prices by 10 per cent will it have to limit the cut to only 5 per cent to give the others a chance?

RATES AND PRICES

Closing prices, Tuesday, September 17th, 1968

Tax Reserve Certificates: (28.8.68) Companies 4⅝%; 3% surrendered for cash; Personal 4%

Bank Rate

July 14, 1966 ..	.. 7%	Oct. 19, 1967 ..	.. 6%
Jan. 26, 1967 ..	.. 6½%	Nov. 9, 1967 ..	.. 6½%
Mar. 16, 1967 ..	.. 6%	Nov. 18, 1967 ..	.. 8%
May 4, 1967 ..	.. 5½%	Mar. 21, 1968 ..	.. 7½%

Treasury Bills

July 12	.. £7	3*s*	5·60*d*%	Aug. 16	.. £6	18*s*	1·79*d*%
July 19	.. £7	2*s*	5·25*d*%	Aug. 23	.. £6	19*s*	0·42*d*%
July 26	.. £7	1*s*	2·22*d*%	Aug. 30	.. £6	18*s*	10·73*d*%
Aug. 2	.. £7	0*s*	4·48*d*%	Sept. 6	.. £6	18*s*	7·99*d*%
Aug. 9	.. £6	18*s*	6·27*d*%	Sept. 13	.. £6	17*s*	243·*d*%

Money Rates

Day to day	.. 5⅞–6⅞%	*Bank Bills*	
7 days ..	.. 5¾–6 15/16%	2 months	.. 7⅜–7 7/16%
Fine Trade Bills		3 months	.. 7⅜–7 7/16%
3 months	.. 8½–9%	4 months	.. 7⅜–7 7/16%
4 months	.. 8½–9¼%	6 months	.. 7⅜–7 7/16%
6 months	.. 8¾–9¼%		

Foreign Exchanges

New York ..	.. 2·38 25/32	Frankfurt ..	9·48¼
Montreal ..	.. 2·56 1/16	Milan	1484¼
Amsterdam	.. 8·67 9/16	Oslo	17·04¾
Brussels ..	.. 119·71	Paris	11·68½
Copenhagen	.. 17·90½	Zürich	10·25 7/16

Gilt-edged

Consols 4% ..	52⅞	Funding 6% 1993	81⅛
Consols 2½% ..	33 7/16	Savings 3% 60–70 ..	91 25/32
Conversion 3½% ..	46 3/16	Savings 3% 65–75 ..	75 9/16
Conversion 5% 1971	93¼	Treasury 6½% 1976	96⅛
Conversion 5¼% 1974	91	Treasury 3½% 77–80	72¾
Conversion 6% 1972	95⅛	Treasury 3½% 79–81	69⅛
Funding 3½% 99–04	72 7/16	Treasury 5% 86–89	72 5/16 xd
Funding 4% 60–90	96¼	Treasury 5½% 08–12	73 7/16
Funding 5¼% 78–80	83 3/16	Treasury 2½% ..	32⅞
Funding 5½% 82–84	81 11/16	Victory 4%	98
Funding 5¾% 87–91	79	War Loan 3½% ..	47⅛

LETTERS TO THE EDITOR

Integration of the Profession

SIR, – I am opposed to the proposals for integration in the form set out in the scheme for the development of the accountancy profession in Great Britain and Ireland.

It is the view of the Council that integration is desirable (even vital) but we start off with the proposal that there shall be three bodies, not one. There will be one body for England and Wales, one for Scotland and one for Ireland. Integration (which is held to be so vital) will not therefore be complete in any case.

It is put forward that integration is the means whereby the profession can be strengthened and the confusion in the public mind removed. It would seem that the three Chartered Institutes do not consider these major objectives of sufficient importance as to require the resolution of the constitutional and other regional differences which are stated to exist.

It is said that integration will secure that the profession in Great Britain and Ireland is in a position to speak with a united voice. Maybe, but only if the three chartered bodies are in agreement – a position not very different from what it is now.

It is proposed that to strengthen the profession and to dispel confusion in the public mind these objectives be achieved by *giving* membership of one of the chartered bodies to every member of the Certified Accountants' Association, the Cost and Works Accountants' body and the Municipal Treasurers' Institute. The only test of fitness to become a chartered accountant is to be membership of one or other of these three bodies.

That means an immediate increase of 50 per cent in the membership of the Institute in England and Wales. If numbers and strength are synonymous terms and no further test of 'strength' is needed, we shall certainly have 'strength'. I believe, however, that mere numbers is not the proper test to apply in assessing the strength of a professional body. I believe the 26,900 members of the three bodies which it is proposed should be integrated with the chartered bodies are not of comparable 'strength' compared with the present membership of the chartered bodies. In my opinion, the addition of this vast number of people will not strengthen – it will weaken.

Certified and cost accountants frequently take a long time to get qualified by examination, and it is admitted that the wastage rate among students of these bodies is high; that is indicative of the truth of my comment. It is my experience that members of these bodies tend to occupy subordinate positions in industry, much of their work is routine or the carrying out of instructions given by others. It is frequently the chartered accountant who directs; it is the chartered accountant who plans and initiates, who is in top control and does the real thinking, the man who carries the responsibility.

Many of the members of the Association and the Cost Accountants' Institute have experience limited to the concern they are brought up in, much of that experience being routine work. I am well aware that some certified and cost accountants do not come within my generalization, that they are eminently suitable to be chartered accountants, but I am not satisfied that their number is sufficient to justify taking in 26,900 members to the chartered bodies with no yardstick other than membership of another body. I am conscious, too, that there are chartered accountants who really have not the standing and experience to be chartered accountants, that, however, is not the issue now before us.

If what I have written is denied it is not sufficient to just say so, there must be evidence to satisfy me that I am wrong. It is no answer to dismiss my views as 'snobbery' – that certainly is not so. I would be glad to see my criticisms refuted because given the proper qualification I would deny no man the chance to become a chartered accountant.

It is not sufficient to reply that evidence cannot be obtained. It should not be difficult to find out in regard to companies whose shares are quoted on a Stock Exchange, how many have auditors whose partners are members of one of the chartered bodies and how many have auditors whose partners are members of the certified body and are not also members of another professional body of accountants. It should be possible to ascertain in regard to quoted companies how many have a member of the chartered bodies as directors or hold the position as secretary (which frequently means accountant to the company), and how many certified or cost accountants not being a member of another professional body hold these positions. Whilst evidence on the lines indicated may not be conclusive, it would be informative.

It is my opinion, that generally chartered accountants in industry carry greater responsibility and seniority than do members of the certified and cost accountant bodies. I believe auditing is mainly carried out by firms of chartered accountants.

I could support a scheme of integration which accepted, as chartered accountants, members of other bodies who as individuals satisfied a standard measured by the job the man is doing.

I am puzzled by the reference to 'confusion in the public mind' – does this mean that 'the public' does not know whether it is talking to, or reading from a report issued by, a chartered accountant, a certified accountant or a cost and works accountant? I really cannot believe that. If that type of public mind is in abundance, will it be relieved of its low mental state by there being only (or very nearly only) chartered accountants on the one hand, and on the other all the bodies who are not to be integrated and accountants that belong to no club at all? Will that type of mind know the difference between a chartered accountant and a licentiate? Will not that type of mind remain in a confused state by reason of the description of firms of practising accountants referred to on page 39 of the English Institute scheme? I think, in fact, there is little confusion in the mind of the public who deal with business affairs.

The purpose of this letter is to express my views on integration. Apart from that issue there is much merit in the plans for the future of chartered accountants, which can be accomplished without absorbing 26,900 people as a condition precedent. I can here comment only superficially on matters not directly concerned with integration.

Page IV of the President's letter states that tuition will inevitably pass . . . into the hands of the national education system. I do not accept the inevitability. It may well be that the best education for the profession should not be dependent on the State. I am by no means persuaded that the tuition given in Polytechnics is particularly good nor that sitting in 'school' – by whatever name it is called – contributes much to becoming a chartered accountant other than enabling a student to get his book-work done that much more easily and with less effort on his part.

I do not subscribe to the suggestion on page five of the General Outline of the scheme that it may be desirable to accept graduates only for entry to the profession as candidates for the 'Chartered' qualification. That could be a disaster for the profession and it could be read as an indication that the undertaking given on page 10 that licentiate accountants will have a means of progression to the chartered accountant qualification is a short-term proposal.

I consider that every encouragement should be given to the licentiate to get full qualification and the enthusiasm for 'graduate entry' is in danger of being overdone. A surfeit of graduates can be a bad thing. A man may not settle for the licentiate qualification only because he is a late developer, more often than not it may be lack of opportunity which is the real trouble. Many of the foremost members of the profession are men who have 'come up the hard way'; every encouragement should be given to those whose circumstances prevent them treading the red carpet in their early days.

I believe it necessary for all students to serve part of their training period on the practising side and part in industry. It is realized that is not easy to achieve but it is vital if the profession is to provide the right type of man to cope with the problems of the future. If I had the choice I would certainly sacrifice time at school to obtain duality of experience.

The inference may be drawn from reading paragraph 21 on page 5 of the scheme that unless education is through the State there can be no grant aid. That is true now but it need not remain like that. It may well be that a 'training contract' can be so drawn that entitlement to grant aid may be achieved without State education being the condition precedent to obtaining it.

Paragraphs 30 and 31 express an intention; paragraph 37 (*b*) refers to a strict control on industry. Paragraph 32 states that it is not intended to take away from practitioners who have been training articled clerks the right to continue to do so.

I believe one of the main reasons why some chartered accountants never really make the grade is because they served their articles with a firm which did not provide adequate training. The present method of interviewing principals when first they seek to take an articled pupil is not satisfactory: it is 'not done' to ask questions about the size of a man's practice; on the other hand, to accept a position that once a man is given authority to take a pupil he can go on doing so for evermore is absurd. To carry out the job of ensuring a pupil goes where he will be taught is a heavy one, a difficult one, and needs proper fact finding. The Council needs to be more forthcoming on what it is they are going to do in the future and how they propose to carry it out.

Paragraphs 79 to 82 are headed 'general proposals' and in the penultimate paragraph of the President's letter there is a reference to a proposed approach to the Government. These are statements of intention; should not the Council now inform members of the Government reaction to the previous representations to the Board of Trade? It may well be that the intentions of the Council are pious hopes and there is little likelihood of ever getting to the halcyon days which come to mind when reading these paragraphs. It could be argued with some force that there is little point in going on with this present exercise of integration, if within twenty years we shall have to face another.

I am yet to be persuaded that the proper and courageous course is anything other than the Institute of Chartered Accountants in England and Wales making a decision to stand on its own two feet.

Yours faithfully,

Sheffield. S. C. HAND, F.C.A.

SIR, – In your issue dated August 10th, you published a letter from Mr M. J. Greener, of Barry, discussing the proposed scheme for the development of the accountancy profession.

I would, first, like to congratulate Mr Greener upon his wide-ranging and penetrating analysis of the important issues affecting the accountancy profession at the present time. His positive and realistic approach to our current needs merits both our serious attention and support.

I believe that any scheme which does not recognize the fundamental importance of the following principles is totally inadequate to meet the challenge to accountancy from other disciplines, which is now occurring with increasing momentum.

First, the recognition that specialization is vitally essential to the future development of the profession. Without clear specialization accountancy will simply represent a large and incoherent mass to the community and also, of greater importance, it is only through such specialization that the major accounting disciplines may be pursued in sufficient depth and intensity to enable high and exacting standards of practice to be reached.

Secondly, any future system of accounting education must be coherently planned towards the idea of specialization, coupled with the establishment of post-qualification diplomas in management accounting, taxation, financial accounting and auditing, local government financial control, etc. It must not be a mere permutation of a number of allied subjects, as in the proposed scheme. Every prospective accountant should be encouraged to pursue his professional education to as high a degree as possible; passing the final 'Chartered' or 'Cost and Works' is only the beginning of the affair.

Thirdly, where a man is qualified in more than one field of accounting, recognition should be given to this fact. The only practical way to do this is to retain the existing method of awarding distinct qualifications by the separate institutes.

It is my conviction from study of the proposed integration scheme that none of the above criteria will be adequately met and that much serious rethinking requires to be done.

What, then, are the arguments put forward in favour of integration of the profession into one body? If one may take the President's letter to members of the English Institute as fairly representing these arguments, they appear to be as follows:

(1) elimination of confusion in the mind of the public by a multiplicity of qualifications;

(2) strengthening the profession and adapting it to meet the needs of a changing world;

(3) improving education and training.

All of these arguments appear to me to be of doubtful validity and are greatly outweighed by those against the proposed scheme. I do not know exactly what is meant by 'the public mind' in this context but, in my opinion, the various branches of our profession are well understood by their clients and employers in business and at national and local government level. The days have now passed when 'chartered accountant' was synonymous with 'accountant' in the minds of businessmen. It may well be that this is still not appreciated by many of our practising brethren.

The second argument set out above is very vague and would probably defy analysis. The only interpretation which I can place upon it is that it is a protectionist appeal calling for the creation of a 'closed shop'. Whilst it is an excellent thing to protect the using public from inferior services, this is, surely, best achieved by the establishment of an 'open' profession operated by well-educated and well-trained practitioners working to the highest attainable standards.

As to the argument regarding education and training, I believe that the main requirement here is to recognize that education is a field for the academic members of the profession to control if we are to achieve our objectives of properly educated accountants. There is, today, an urgent need for accounting to examine its basic philosophy; to understand more clearly its social function as a part of economic science; to appreciate the effect of new modes of thought, both social and mathematical; to move away from the idea of accounting as a mere technician's science. Ours has not been in the past, I think, a profession which has desired to create and preserve a strong academic tradition. It is now necessary to redress this situation and, to the extent that this is linked with specialization, will be assisted by the retention of the separate institutes pursuing their appropriate functions.

By all means let us co-operate. This is a pre-condition of any civilized society but we must not assume that co-operation means that we must all be reduced to one common denominator any more than we need accept one theory or art or philosophy.

I agree with Mr Greener that the situation requires that we retain the idea of separate institutes dealing with the major branches of accounting. These could be as follows:

(1) The Institute of Chartered Accountants – dealing with auditing and taxation practice;

(2) The Institute of Cost and Works Accountants – dealing with cost and management accounting;

(3) The Institute of Municipal Treasurers and Accountants – dealing with governmental and municipal accounting.

There could be modification in the names of these institutes to meet the above requirements but, above all, we must recognize that the passing of one accounting qualification is no longer sufficient to enable a man to practise all aspects of the subject. Incidentally, it is ironic that, coupled with the sweeping away of lively and important professional institutes, the proposed scheme wishes to retain the principle of three 'chartered' institutes, which appear to be now a mere historical anachronism and why one should wish to be a member of more than one 'chartered' institute, remains incomprehensible to me.

The position of the Association of Certified and Corporate Accountants is somewhat anomalous because it appears to duplicate the other institutes. The members of the Association could be offered membership of one of the other institutes depending upon the individual's background and training. Where, for example, a certified accountant is also a cost and works accountant, it would be appropriate to offer him membership of both the chartered and cost and works institutes. I have the highest regard for the Association which, both in its education syllabus and its research publications, pursues standards which are second to none, but I believe that this particular integration is justified by the facts.

A co-ordinating committee for the whole profession could then be established to deal with common problems and national and political matters.

We are living in a rapidly changing environment where the traditional assumptions regarding the role of the accountant may no longer be taken for granted. Anyone who, either in industry or the academic world, has seen the development of sciences and techniques encroaching upon the accepted accounting field, will appreciate the challenge which our profession has to face in the future. In my submission, the strength to combat this challenge lies in diversity; in quality not in quantity.

Alfred North Whitehead once wrote:

> 'Every epoch has its character determined by the way its populations react to the material events which they encounter. This reaction is determined by their basic beliefs – by their hopes, their fears, their judgements of what is worth while. They may rise to the greatness of an opportunity, seizing its drama, perfecting its art, exploiting its adventure, mastering intellectually and physically the network of relations that constitutes the very being of the epoch. On the other hand, they may collapse before the perplexities confronting them. How they act depends partly on their courage, partly on their intellectual grasp.'

Let us be worthy of our destiny.

Yours faithfully,
ERIC RENSHAW,
F.C.A., F.C.W.A., J.DIP.M.A., A.T.I.I.

Cardiff.

SIR, – The Institute's scheme for the development of the accountancy profession on page 30, paragraph 31 (*d*), proposes that future examinations for students should be held in the early part of the summer. The proposals give no details of the minimum and maximum periods of examination leave, but assuming that students have the same minimum four weeks' leave as at present, the proposals mean that, with rare exceptions, every year the entire profession will be deprived of every one of their students for a minimum of five weeks at a time when we can least afford it, at one of the most critical auditing periods. Also, every student will be deprived of vital experience during this period of finalization of accounts and taxation returns because if he is going on leave before an audit is finalized he cannot be given a responsible part in that audit.

The Council recognizes that there are problems for principals in practice in maintaining services to clients and will give special attention to the discussion of the proposals at the meetings this autumn.

As service to clients is the most important of all an accountant's activities, it is suggested that all members in practice should stress to the Council the vital necessity to give greater consideration to the practitioner and his clients and that members should press for the examinations to be held in September, October or November. In addition to assisting the practitioner, these dates would enable him to give the best training to the student.

Yours faithfully,

London EC4. G. H. HOVEY, F.C.A.

Data Processing from Incomplete Records

SIR, – Mr Baldero, in your September 7th issue, makes light of the work involved in the manual preparation of accounts from incomplete records. Perhaps he has forgotten the laborious writing of figures on pages and pages of analysis paper, the transcription errors that are bound to occur, the castings down and across of the same figures several times over, and finally, the balance sheet that doesn't.

Any system that saves some of this drudgery must be welcomed by practising accountants as an inevitable move out of the nineteenth century. However, I do agree that the data processing services offered at present appear to have their limitations.

A better answer, in my view, is a Logabax machine in the accountant's own office. This provides flexibility, control, saves seniors' time and goes a step further than the computer system in that the end product is a profit and loss account and balance sheet.

It is a simple matter to prepare programs for this machine to meet the requirements of each type of business from small 'one-man bands' with minimal records to companies with several branches and semi-complete records. In my office we have ten standard programs and we find that these provide all the flexibility that was ever obtained under a manual system.

Yours faithfully,

Thame, Oxon. L. A. J. SHUTE, F.A.C.C.A.

Minority Shareholders

SIR, – A and B are shareholders, and directors in a small private company. A, the managing director, who is go-ahead and the mainspring of the company's success, owns 60 per cent of the share capital. B, a part-time director, is extremely cautious and has contributed very little to the company other than his capital, owns about 40 per cent of the shares apart from one qualification share held by A's son who is also a director.

B on being asked by his co-directors to resign his directorship has refused, whereupon A has dismissed him, thereby depriving him of annual emoluments of about £1,200 p.a.

Total profits before charging directors' remuneration are about £7,000–£8,000 and it is not company policy to pay dividends until maximum allowance for directors' remuneration has been made. B cannot sell or transfer his shares without approval of the board.

Would any readers who may have experience of this kind of situation please indicate what B's rights are, and what course of action he should take?

Yours faithfully,

FAIR PLAY.

Case for Abolishing Surtax

SIR, – One argument for retention of this tragic tax is the supposed ability of persons with high income to pay more tax. It is entirely a political weapon. It is without doubt the major cause of England's economic difficulties, but successive Governments simply will not face this problem.

Perhaps the strongest argument in its favour is that to abolish it would be inflationary, but inflation does not come from the surtax payer who will tend to save surplus income. Moreover, the less the highest paid person receives, the lower is the incentive all the way down the scale. I have little doubt that a reduction in surtax merely to take into account the fall of the value of money since the tax was introduced in 1922, would show colossal and immediate benefits to the whole country.

When capital gains tax was introduced in 1965, it was superimposed upon a system specifically designed to exclude it. This was the opportunity to switch the emphasis away from income on to capital, but instead we had the additional 10 per cent surtax in 1965–66, no reduction in surtax when income tax was raised to 8*s* 3*d* and we now have a state of affairs upon which the effect of inflation and surtax makes a high income an immediate target for avoidance or emigration.

I do not believe that the country will ever get over its economic difficulties with surtax at its present level.

Yours faithfully,

MERVYN R. FRANKEL, F.C.A.

St Helier, Jersey.

Decimal Currency in Action

A PREVIEW of Britain's decimal currency in action was provided last week at the International Food and Drink Fair at Olympia by the Fine Fare Supermarket chain. 'Find out how decimal currency will affect you at Fine Fare's decimal supermarket'. These opening words from a special shopping newspaper being handed to customers of the supermarket and repeated on typical supermarket placards welcomed the first customer as he tendered a 2*s* piece for the purchase of a packet of biscuits, value 6½ new pence or 1*s* 4*d*, and received as change a two new penny piece. The change was selected and given in less time than it had taken the shopper – this journal's correspondent – to work out what should be purchased to achieve that precise change.

By special arrangement with the Decimal Currency Board and the Royal Mint customers of the supermarket, covering 7,500 square feet of selling space and 6,000 square feet of storage, were able to use all the coinage which will be in use on D-Day (February 15th, 1971); they were not allowed to use halfpennies and half-crowns.

In the supermarket all shelf-edge tickets were dual-priced, while all individual products were marked in decimal currency only. Cash registers and scales for weighing meat and produce, etc., were decimalized. At the check-out, 3*d* bits and old pennies were accepted only in multiples of sixpence because these are the only *£sd* values which have exact decimal equivalents. For example, customers buying 31*p* (exact *£sd* equivalent 6*s* 2·4*d*), worth of goods were asked to tender high, i.e. at least 32½*p* (6*s* 6*d*), so that the correct change of 1½*p* could be given; 6*s* 2*d* or 6*s* 3*d* would not be accepted. Conversion charts were on display at the supermarket.

Because the present halfpenny will have disappeared long before D-Day, existing halfpenny endings on present currency pricing had been rounded down. It was not made clear whether this policy of price-cutting was, in fact, going to come into operation in this particular chain of supermarkets when the ½*d* is, in fact, demonitized.

Decimal training for check-out girls

Twenty-six check-out girls, selected from over 2,500 employed in the company's supermarkets in England and Wales, underwent a fortnight's intensive training in preparation for this first essay into decimal coinage shopping. The specially selected 'pioneer team' of check-out operators were given lectures, demonstrations and practical work, including role-playing exercises involving the handling of decimal currency, under the supervision of the company's group training officer, at their Tottenham training centre. The centre was equipped with a typical range of merchandise, decimal-priced, to enable the girls to become familiar with the handling of mixed currency, both as customers and as check-out operators.

The simple experiment of being the first shopper past the tills elicited the fact that the requirement for shoppers

SWEDA DECIMAL TRAINI

Check-out girls being trained to handle decimal coinage.

Dual-price shelf tickets showing commodity prices in both decimal currency and shillings and pence.

to 'tender high' caused some difficulty and the efficiency of the girls was somewhat obscured by the wide range of voucher-offers associated with the supermarket under which the vouchers could not be used to reduce the charging price for the goods, but were refunded in cash after the gross bill had been paid by the shopper.

Comprehensive market research plans

Research into the impact on consumers, retailers and producers of the changeover to decimal currency is being undertaken by the British Market Research Bureau and Retail Audits Ltd, and the International Food and Drink Fair presented an opportunity to examine the problems experienced by the supermarket in decimal currency trading; to see how the visiting retail trade view the changeover to decimals; and also to see how the experiment will have helped exhibitors at the Fair to understand the problems in decimalization. A full report covering all stages of the research will be published later this year. Questions asked included:

To the shopper – What is your attitude to the changeover? Did you find decimal shopping easy? What do you think of dual price ticketing?

To the shop assistant – How much training/experience will you need to operate the new system?

To the retailer – What problems do you envisage in the changeover? How long should dual-pricing go on?

To the manufacturer – What steps are you taking in preparation?

A major difficulty which should show itself in the research results is not so much the difficulty of adjusting one's outlook to reckoning in decimal coinage, as the fact that (necessary) dual-pricing involves a shift of attention from one basis to the other, even though in a short time many individuals would not 'need' *£sd* pricing. So long as the dual prices are shown the attention is distracted, whether necessary for the individual or not.

It was, perhaps, unfortunate that all shelf-edge pricing was printed in red, while on large pricing posters – which doubled as brand name advertisements – new and old currency prices were distinguished in different colours but with no uniformity of colour-coding of each currency, different colours being employed in different sections of the supermarket.

Hints to shoppers

In a column hidden well inside the supermarket decimal newspaper, under the promising heading of 'The Art of Decimal Shopping', there were listed ten basic hints to housewives, none of which, however, mentioned decimal currency at all.

In fact, the decimal shopper received very little guidance and some measure of confusion. Conversion tables displayed on the back page of the decimal newspaper permitted conversion from old currency to new; other tables were exhibited within the supermarket by a commercial concern now marketing them through stationers. It would, perhaps, have been less confusing to the shopper if only one type of conversion table was available.

An invitation was extended to take any decimal problems to the manager who was, however, so involved in the minutiae of the exhibition that it took three-quarters of an hour and a Press card to find him. The Decimal Currency Board, of course, had a small stand for the information of the public, but this was situated outside the supermarket; it was placed unobtrusively at one side and appeared to take little opportunity to associate itself with the firm next door.

Shoppers at the supermarket had been promised 'it is NOW that you can get the feel of the new coins – it is the first chance you will have of actually seeing the decimal system in action in this country'. They might be excused for feeling a little deflated after running the gauntlet of some confusing dual-prices to be rewarded in their change with 5 and 10 new penny pieces already in circulation and a few diminutive bronze coins. The experiment illustrated clearly the difficulties of transition without in any way revealing the advantages.

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Notes and Notices

PROFESSIONAL NOTICES

Messrs Edwards, Trew & Co, Chartered Accountants, announce that as from July 22nd, 1968, Mr J. C. Sutherland Edwards, F.C.A., has retired from practice. On the same day Mr E. J. N. Nabarro, F.C.A., and Mr B. C. Twyman, F.C.A., became partners in the firm, together with the remaining partner Mr B. A. Burke, F.C.A. The practice is now being carried on from 16 Great James Street, London WC1. Mr Edwards is available in a consultative capacity.

Messrs Pannell Fitzpatrick & Co, Chartered Accountants, announce that they have amalgamated in Glasgow with Messrs Jardine, Dunlop & Anderson, Chartered Accountants, and Messrs Gourlay & Deas, Chartered Accountants, who are together practising in the name of Pannell Fitzpatrick & Co, at 232 West Regent Street, Glasgow C2, and at Coatbridge, Lanark and Motherwell. The partners are Messrs R. D. Gourlay, T.D., C.A., R. A. Porteous, C.A., R. G. P. Breingan, C.A., J. Crawford, C.A., G. O. Thomson, C.A., G. W. M. Macdonald, C.A., J. C. Dietrichsen, C.A., D. Wilson, C.A., W. J. Leeming, F.C.A., R. H. More, B.A., F.C.A., and R. H. Morcom, F.C.A.

Messrs Winter, Robinson, Sisson & Benson, Chartered Accountants, of Newcastle upon Tyne, announce that Mr George Nelson Taylor, F.C.A., will retire from the partnership on September 30th, 1968, but will be available for consultation.

APPOINTMENTS

Mr T. R. Astley, F.C.A., has been appointed deputy chairman of Eva Industries Ltd.

Mr Robert C. Gibb, O.B.E., C.A., managing director of Timothy Whites & Taylors Ltd, has joined the board of Boots Pure Drug Co Ltd following the acquisition of Timothy Whites by Boots.

Mr W. R. C. Halpin, B.A., F.C.A., has been appointed managing director of Knight Wegenstein Ltd, the British member of the International Knight Wegenstein management consultancy group of companies. He has also been appointed a director of the Swiss holding company, Wegenstein Management Holding, A.G.

Mr M. C. A. Holt, F.C.A., has been appointed to the board of Fairey S.A., the Fairey Group's subsidiary company in Belgium. He retains his position as group accountant.

Mr M. C. A. Holt

Mr I. R. Patey

Mr I. R. Patey, F.C.A., M.INST., has been elected chairman of the Yorkshire Traction Company Ltd.

Mr A. E. Sage, F.C.A., has been appointed a director of Currys Ltd; he retains his position as secretary.

Mr L. H. Storey, F.C.A., Mr J. W. Poynor, F.C.A., and Mr J. F. Walker, F.C.A., have been appointed directors of Southerns Ltd.

GOVERNMENT APPOINTMENT

Mr F. E. Price, C.B.E., F.C.A., a partner in Arthur Collins & Co, has been appointed by the Secretary of State for Wales to be a member of the Mid-Wales New Town Development Corporation.

PROPOSED INTEGRATION SCHEME

Next Week's Meetings

The following local discussion meetings of members of the various accountancy bodies have been arranged for next week. Members must produce their copies of the scheme to gain admission.

The Institute of Chartered Accountants in England and Wales

Tuesday:

London, Church House, Westminster, 6 p.m.

Thursday:

London, Church House, Westminster, 2.30 p.m.

Canterbury, University of Kent, 2.30 p.m.

Friday:

Southampton, The University, 2.15 p.m. (likely to be continued in the evening).

The Institute of Chartered Accountants of Scotland

Thursday:

Dundee, Angus Hotel, Nethergate, 4 p.m.

The Institute of Municipal Treasurers and Accountants

Council members will attend the following branch and section meetings, when the scheme will be discussed.

Monday:
Northern Branch, Newcastle, 2 p.m.

Thursday:
Northern Associates, Durham, 7 p.m.

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THE INSTITUTE OF COST AND WORKS ACCOUNTANTS

London Conference

'Information retrieval and assembly' will be the theme of a conference to be held by the London Branch of The Institute of Cost and Works Accountants on October 15th at the Connaught Rooms, Great Queen Street, London WC2.

The conference, which commences at 4 p.m. and lasts until 7.15 p.m., is designed to give accountants a clear appreciation of the methods by which the information they have to contend with today can be made more easily available. Mr F. T. Hunter, F.C.A., F.C.W.A., J.DIP.M.A., President of the London Branch, will be in the chair and two papers will be presented: 'Retrieval of technical and scientific information', by Miss H. M. Townsley, B.SC., A.I.INF.SC., and 'The retrieval of management information', by Mr R. Ford, B.SC.(ECON.).

The fee for the conference is £3 and applications to attend should be addressed to The Conference Registrar, at the Institute's Offices, 63 Portland Place, London W1.

THE INSTITUTE OF INTERNAL AUDITORS

West European Conference

Over 200 delegates and their ladies from throughout the United Kingdom together with visitors from the United States, France, Ceylon, and other overseas countries are expected to attend the ninth West European Regional Conference of The Institute of Internal Auditors to be held in London from October 30th to November 1st.

Sponsored by the Institute's London Chapter, the conference will be opened by Mr Harold Lever, M.P., Financial Secretary to the Treasury. There will be four general sessions and two concurrent sessions on the theme of the conference – 'Objective – Maximum effectiveness'.

The first general session will be addressed by Mr Norman A. Smith, M.B.E., T.D., F.C.A., chief internal auditor, Unilever Ltd, on 'Achieving the objectives of internal auditing'. At the second session Mr Michael C. Stoddart, F.C.A., managing director, Singer & Friedlander Ltd, will speak on 'Mergers, acquisitions and the internal auditor'. Sir John Wall, O.B.E., deputy chairman, Post Office Board, will speak on 'Internal controls – their application and appraisal', at the third session. The Rt Hon. Lord Fiske of Brent, C.B.E., D.L., Chairman, Decimal Currency Board, will address the fourth session on 'Decimalization'.

Subjects and speakers at the concurrent sessions include: 'Safeguarding the company's assets', by Mr J. R. Robinson, F.C.A., director-in-charge, group planning, Rio Tinto-Zinc Corporation Ltd; 'The National Giro System and its advantages to auditors', by Mr J. W. Grady, director, The National Giro System; 'Modern techniques assisting auditors', by Mr John Perfect, F.C.A., partner in Cooper Brothers & Co; and 'Computers and the future', by Professor S. Gill, M.A., PH.D., President of The British Computer Society.

At the conference banquet on Wednesday evening the guests of honour will be the Lord Mayor and Lady Mayoress of Westminster. Other social functions include a special programme for the ladies of delegates and a visit to the office of a national newspaper.

Registrations are still being accepted for the conference and readers interested in attending should write to Mr L. Fidgen, Vitamins Ltd, Upper Mall, London W6.

BRITISH COMPUTER SOCIETY

One-Day Symposium

The Manchester Branch of The British Computer Society is to hold, in conjunction with the National Computer Centre, a one-day symposium on November 5th at the Piccadilly Hotel, Manchester 1, entitled 'Computer services for commerce and industry – where to begin'.

The conference is intended for users and potential users of computer bureaux and will take the form of a series of 'television interviews' held by senior members of the NCC with each user.

Readers wishing to attend the symposium should write to the Conference Department, The British Computer Society, 23 Dorset Square, London NW1.

COURSES FOR MANAGEMENT

A series of one-day courses dealing with how to forecast and budget sales, stock control and reduction, and monthly accounts among other subjects is to take place in London during October and November as follows:

'How to forecast and budget sales': October 15th.
'Stock control and reduction': October 16th.
'Speed up your monthly accounts': October 17th.
'How to market for profit': October 22nd.
'Financial aspects of transport and distribution': October 29th.
'Speed up your annual report and accounts': November 6th.

Further particulars of these courses are available from Dr J. M. S. Risk, B.COM., PH.D., C.A., F.C.W.A., J.DIP.M.A., F.B.I.M., M.I.M.C., P.O. Box 40, Amersham, Bucks.

SOME POINTS ON THE FINANCE ACTS

Corrections

It has transpired that there were several typing errors in the draft of the statement reproduced under the heading – 'New Revenue Concessions' – in our issue of August 24th. They are as follows: in the first sub-heading on page 242 the reference to Finance Act 1965, section 11 (1), should be section 81 (1), and on page 245, the heading, 'Finance Act 1968, section 52', should read 'section 50'. On page 243 the reference to Finance Act 1967, section 11 (4), in the heading commencing 'Finance Act 1965, section 65 . . .', should read Schedule 11 (4); and in the paragraph on page 244, headed 'Finance Act 1967, section 15: Increase of surtax rates for 1965–66', the reference to September 30th, 1965, should be September 30th, 1967.

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Financing Local Democracy

WHATEVER proposals the Royal Commission on Local Government in England may make for converting an administrative structure designed for the mid-nineteenth century to meet present-day needs, local government will be no more democratic or effective unless the financial foundations ensure independence of action. As the Exchequer contribution to the costs of local government has risen, so the measure of central control has increased to a point where many observers consider local independence to be more mythical than real. With the prospect of rising expenditure and the lack of truly buoyant income from the local rate, it is difficult to believe that conditions will alter greatly.

The problem is hardly new. Before the last war the need for alternative sources to the local rate as a basis for the continuing independence of local government was recognized. The search continues but the emphasis has shifted to additional rather than alternative sources of revenue. Two new publications reflect both the urgency of the matter and, to put it no more kindly, the absence of any genuinely new ideas. Readers of *Sources of Local Revenue* (RIPA, 10*s* 6*d*), which has been prepared by the Director of the Royal Institute of Public Administration, Mr Raymond Nottage, and a former Deputy Chief Inspector of Taxes, Mr S. H. H. Hildersley, will recognize all the familiar proposals for new 'assigned revenues'. The other study, *Sales Tax* (IMTA, 10*s*), is the product of a team of four younger members of The Institute of Municipal Treasurers and Accountants. This, as its title suggests, is less ambitious and far-ranging than the RIPA work.

In *Sources of Local Revenue* the authors, after reviewing all the various facets, conclude that there are only two possible taxes for supplementing local rates. The first is a local income tax. While the potential benefits to be derived from the prospective regional computerized administration of Schedule E are considerable, the difficulties and costs of the dual assessments, if the money is to be something more than a grant equivalent, are clearly recognized and the proposal is regretfully set aside. Any realistic appraisal of the case for a local income tax must come to the same conclusion. Without differential regional rates the local authorities may just as well content themselves with grants based on the aggregate Schedule E collections in the region. It is, to put it no more strongly, incredible that the Treasury would ever transfer any part of the control of the income tax to local bodies, however large and responsible they may be.

The RIPA proposal for assigning to the local authorities the proceeds of all motor taxes, i.e. vehicle duties, licence fees and petroleum taxes is much more realistic. The first two taxes are already collected locally; the distribution of petrol is nation-wide and the regional distribution of revenue makes it eminently suitable for collection by local authorities. It is also suggested that the driving licence charge should be raised to £1 to produce £15–£20 million per annum, while the private vehicle licence could, like motor insurance premiums, be varied within a modest range from region to region to produce about £250 million per annum. Taxation of commercial vehicles would remain a central government function. The possibility of road pricing is discussed but, for the present, its technical difficulties and uncertain future effectively debar it from consideration as a realistic proposition.

The result of transferring (the term 'assigned' has too many unhappy connotations) the motor vehicle duties etc., to local authorities would enable the Exchequer to reduce its grant aid from 47 to 14 per cent of local revenues. It would also redress the imbalance in the distribution of rate revenues, which are concentrated in the south-east, whereas car ownership and fuel consumption are much more widely dispersed.

The IMTA report deals solely with the possibilities of a local sales tax. The authors are not impressed with the apparent and much publicized advantages of the added value tax. The IMTA report's discussion of these taxes is especially useful in view of the continuing demand for the introduction of an added value tax. The authors are impressed, however, as was the Richardson Committee, with the relative ease of administration and control which marks the purchase tax. The IMTA report considers that the purchase tax would be a useful supplement to the local rate but notes that the yield from this tax has not matched the rate of increase in local authority expenditure. Whereas the percentage increase by 1966 over 1957 in the purchase tax revenue was only 41·3 per cent, the corresponding figure for rates was 120·3 per cent. Clearly, if this rate of growth is likely to persist (and it is difficult to see how, at least in the longer run, it will greatly slacken) the limitations of the present purchase tax are self-evident. It is noteworthy that the RIPA report does not advocate either the purchase tax or any form of sales tax as an additional revenue source, mainly on grounds of administrative difficulties.

In the opinion of the IMTA authors, before the purchase tax could become an effective supplement to local rates, it would be necessary to widen the base of the tax. Nevertheless, the 1967 yield of purchase tax of £712 million would cover 18 per cent of local authority current expenditure in that year. The authors recognize that the yield could only be increased by 'including a greater proportion of non-luxury items'. If the revenue from purchase tax were to replace part of the yield of the local rates, 'it is by no means certain that the new tax would be measurably less regressive by comparison'. The authors make the valid point that so-called luxuries and semi-luxuries tend to become necessities as living standards rise.

In short, equity requires the substitution of part of the Exchequer grant by the purchase tax yield. The IMTA authors contend that such a switch 'would be conducive to economy and public accountability' and at the same time would 'help local authorities to maintain at least the existing degree of financial autonomy', while leaving the Government with an adequate degree of control of local expenditure.

Ideally, each region or local authority would be free to vary the rate of purchase tax levied about a national norm set by the Government, but the report recognizes the problem in a small crowded island of the 'fetching and carrying' practices across regional boundaries if tax rates diverged significantly. Since the present tax is collected on a regional basis, it would be suitable for local authorities and might well be cheaper to collect than the local rate.

With the re-structuring of local government and some revision of its financial basis, there will be both opportunity and need to reformulate the grant system, states Professor A. R. Ilersic in a postscript to his proposals for *Rate Equalization in London*, published by the IMTA (20*s*).

The IMTA report affirms that if the purchase tax yield were to go to local authorities, the grant distribution would need to be adjusted. The RIPA observes that, with enlarged revenue resources, certain of the present Exchequer grants would not be required. Professor Ilersic argues, however, that an equitable grant system must take more account of resources than does the present pattern. It is, he avers, unlikely that any practicable formula grant could fully adjust the diverse resources and varying needs of all the individual authorities. Hence, he concludes, some equalization of resources at least within the regions along the lines of his scheme for Greater London might be needed if the cost is to be equitably apportioned between ratepayers.

In the last resort, however, any student of local government is bound to ask the question why the revenue potential of the local rate has not been properly exploited. With provision for aiding the poorest sections of the community as well as for payment by instalments, the local rate is not much heavier a burden on the average household with an earning head than is the purchase tax or the tobacco duty.

FINANCE ACT 1968

The Special Charge – II

IN arriving at 'aggregate investment income' for the purposes of special charge, payments of any of the descriptions in section 23 (1), (2), (3) and (4) of the Finance Act 1966 are not to be deducted (section 42 (8) (*a*)). These are:

(i) annual payments made for full consideration under a partnership agreement to or for the benefit of a former partner or the widow or dependents of a deceased former partner (section 23 (1));

(ii) annual payments made for full consideration by an individual in connection with the acquisition by him of the whole or part of a business:

(*x*) to or for the benefit of the individual from whom the business was acquired or, if he is dead, his widow or dependents; or

(*y*) (if the acquisition was from a partnership) to or for the benefit of members or former members or proprietors or, if they are dead, their widows and dependents (section 23 (2));

(iii) annual payments made to anyone which have devolved on the death of a former partner not more than ten years after he ceased to be a partner.

The above payments are expressly made deductible *for surtax* notwithstanding section 415 (1) of the Income Tax Act 1952 as extended by section 12 of the Finance Act 1965. If it could be shown of any annual payment that it would still be deductible for surtax without the aid of section 23, it nevertheless seems that the effect of section 42 (8) (*a*) of the 1968 Act is to disallow it for special charge purposes.

Section 12 is confined to cases where the annual payments became payable under a settlement or arrangement made after April 6th, 1965; but section 42 (8) (*a*) makes it clear that that date is of no significance for special charge purposes.

The following periodical payments are prohibited, as deductions, by section 42 (8) (*b*) of the Finance Act 1968, i.e. annual payments:

(iv) in pursuance of a Court Order for maintenance, or an affiliation order; or

(v) in pursuance of a disposition not made for full consideration in money's worth; or

(vi) constituting income as described in section 23 (5) of the Finance Act 1966, i.e. income arising under a settlement made by one party of a marriage for the other after the dissolution of the marriage or while they are separated.

None of the payments within (i) to (vi) above is to be treated as the income of any person but the payer, as far as special charge is concerned (section 42 (9)).

Section 42 (8) also prohibits deductions for the following:

(vii) payments allowable as deductions in computing profits or gains of any description. (The subsection does not say for what purposes the computation of profits is being made but presumably it means income tax purposes). (section 42 (8) (*c*).)

(According to the Inland Revenue, bank overdraft interest which *could* have been allowed as a trading expense but has not been allowed, either because the deduction was not claimed or because a bank interest relief claim was made instead, will not be deductible for special charge purposes.)

(viii) losses incurred in any trade, profession, employment or vocation or in the occupation of woodlands *in respect of which the person in question has elected to be charged to tax under Schedule D.*

Why the draftsman included the words in italics is not clear. It certainly does not mean that where the occupier of woodlands has not made a Schedule D election he *can* deduct his losses.

The taxpayer may have investment income from letting, say, an industrial building or agricultural buildings. Capital allowances in respect of such income can in the ordinary way be deducted in arriving at the aggregate investment income. However, section 42 (10) imposes a restriction. It says that the amount of any allowance under Part X of the Income Tax Act 1952, available or primarily available against a specified class of income for 1967–68 shall be allowed as a deduction 'in so far only as the amount of the allowance does not exceed the individuals' investment income for that year of that class'. This restriction corresponds to that in section 51 (3) of the Finance Act 1948, in relation to special contribution, which was added after the Bill was published.

In their explanatory booklet, the Inland Revenue have cited the example of an individual's 1967–68 allowances for agricultural capital expenditure being deductible up to the amount of his 1967–68 agricultural investment income (such as farm rents). If there is an excess of allowances over that kind of income, it will not be deductible for special charge purposes even if, for income tax, it was allowed against agricultural earned income (e.g. farming profits) or against non-agricultural investment income.

Lloyd's underwriters have a subsection all to themselves. This is section 42 (11) which provides that amounts transferred into or out of a Lloyd's underwriters special fund will not affect the amount of the aggregate investment income.

In two respects the special charge is much more harsh than the special contribution. Dividends from companies, no matter how closely held, constitute investment income. However, this so-called investment income will in many cases be merely the fruit of the hard work of the shareholder who receives it. For one reason or another, he may carry on his activities through the medium of a company without drawing out of that company the remuneration commensurate with the effort and skill he has put in. The Finance Act 1948 provided in the Tenth Schedule for some relief from special contribution on dividends received by what are called 'working directors' of private companies which were not investment companies. One looks in vain in the Finance Act 1968 for any such relief from special charge. This is in line with the discrimination which the legislation of the past four years has made against people who carry on business through the medium of companies. The other respect in which the special provisions are more harsh is in the field of apportionment of a close company's income. Under the special contribution rules, no contribution was payable on income of a private company which was apportioned to the taxpayer under the surtax and directions provisions. With the special charge, the position is the opposite. Section 45 (1) reads:

> '(1) It is hereby declared that, subject to subsection (3) below, investment income includes any amount apportioned for purposes of surtax (whether originally or by one or more sub-apportionments) to an individual under section 78 of the Finance Act 1965.'

Thus the taxpayer may be called upon to pay a special charge, i.e. a capital impost, on income which he has not received and may never receive, still less the capital which produced it. Section 45 (2) applies section 249 (5) which is the subsection which prevents undistributed income which has been apportioned, from being taxed again when it is actually distributed. However, seeing that the special charge is confined to the year 1967–68, this concession is illusory.

Section 45 (1) is expressed to be subject to section 45 (3). The latter subsection however, does not provide for any relief; on the contrary it gives to the Inland Revenue powers to make the burden of special charge even more onerous on participators of non-trading close companies. If the Board of Inland Revenue see reason for it, they have power to apportion the whole of the income of a close company for the accounting period ending in the year 1967–68 up to the amount of the required standard, and any amount apportioned to a participator under this subsection is to be included in his aggregate investment income. The subsection also provides for sub-apportionments through intermediate close companies. This *ad hoc* apportionment is apparently meant to be in substitution both for the inclusion in the individual's aggregate investment income of dividends actually received by him and and also of surtax apportionments made to him for 1967–68. Section 45 (4) is apparently meant to achieve this, but it is very doubtful whether it does so. It reads:

> '(4) Where the Board have made an apportionment under subsection (3) above, any distribution made by the company and any apportionment of the company's income for surtax shall be left out of account in ascertaining aggregate invested income for the purposes of the special charge.'

Where there are sub-apportionments through intermediate companies, it could happen that the taxpayer will be over-charged. It is only apportionments and distributions of the underlying company which have to be left out of account. Actual dividends by the holding company, and surtax apportionment of the holding company itself, would not apparently be excluded if the board had not exercised its section 45 (3) powers against the holding company. Thus the Inland Revenue could use their discretionary power under section 45 (3) in a way to produce an inequitable result, without apparently being subject to any control by the Courts. Fortunately, section 45 (3) does not apply in the case of a trading company or the member of a trading group (section 45 (5)). Section 45 (3) uses the expression 'the accounting period ending in the year 1967–68'. This will normally be the twelve months' accounting period ended in that year. However, if the company did not have a twelve months' accounting period ending in that year, then the accounting periods covering the year are to be apportioned on the lines laid down in section 89 (6) of the Finance Act 1965 (section 45 (8)).

(*To be continued.*)

Current Affairs

National Income and Expenditure

SINCE 1952, the autumn of each year has witnessed the publication of the *National Income and Expenditure* Blue Book. That for 1968 (HMSO, price 8*s* 6*d*) is even larger and more detailed than its predecessor, covering as it does an eleven-year period 1957–67. From the technical point of view the most interesting table is the expanded input-output transactions matrix for 1963 with 28 different industries as compared with 15 in earlier analyses. For the student or specialist reader of the Blue Book, the explanatory notes have been considerably reduced in scope. This should help the sales of the forthcoming revised edition of *National Accounts Statistics: Sources and Methods.*

The gross national product in 1967 totalled some £34,000 million, equal to £620 per head of the population. On a purely statistical point, would not such figures be more significant if expressed per household rather than per head of the population? In money terms this was 4½ per cent higher than in 1966 but, in real terms, the increase was only 1 per cent. That some restraint on incomes seems to have been achieved is evident from the finding that income from employment rose in 1967 by only 3½ per cent, compared with an annual average of 7 per cent over the period 1962–66.

The breakdown of consumer expenditure reflects much the same pattern as is disclosed by the Family Expenditure Surveys. In particular, expenditure on motoring in 1967 accounted for 1*s* 8*d* out of every £ spent, compared with only 10*d* in 1957. Drink and tobacco accounted for 2*s* 5*d* and clothing 1*s* 8*d*; food absorbed 4*s* 4*d* in 1967 compared with 5*s* 5*d* in 1957 out of every £ spent. Company profits increased by 4 per cent between 1966 and 1967, having declined by over 6 per cent in the previous year. The latest increase was still substantially below the average growth rate of 6 per cent during the period 1957–65.

Public sector expenditure has continued to rise, with social services accounting in 1967 for 43 per cent of current public sector outlays, compared with 38 per cent a decade earlier. Perhaps the most striking fact is that national insurance benefits and other current grants from public authorities now account for over 10 per cent of total personal income, these receipts having increased by an average of over 10 per cent per annum during the past decade. Income from self-employment has increased by only 4 per cent per annum and accounts for less than 8 per cent of total personal income.

Earlier Accounts?

A CYNICAL investor is reported to have observed on the receipt of a somewhat belated set of accounts from a public company that two figures at least could be relied upon, the date and the authorized capital. Exaggerated though this view may be, it is not without some justification. The interval between the end of a company's financial year and the receipt of the published accounts is usually long enough to ensure that, especially in a period of fluctuating trade, many of the key figures need considerable up-dating if the accounts are to provide the shareholder with some guidance as to the value of his investment.

Hence, at first sight, the possibility that the Board of Trade may reduce the existing nine-month time limit for the preparation and presentation of company accounts is to be welcomed. Presumably any such changes would be incorporated within the proposed new Companies Act. If such recommendations were to be enacted, the impact on the accountancy profession would be serious. There are certain periods in the year when the average office is swamped with work since companies do not, unfortunately, stagger their financial year-ends to meet their auditors' staffing position, and then even urgent reminders from the Inland Revenue and the Registrar of Companies for arrears may get short shrift.

What needs clarifying is the object of this proposal. If it is to ensure that shareholders in public companies get earlier and more relevant information there is some point to it. If it is merely to ensure that the Board of Trade statisticians get up-to-date accounts for their quarterly analyses, then it is an altogether different matter. After all, even if the publication date of the final accounts is accelerated after the year end, this is not the only or even the most effective way of keeping shareholders informed.

Need for Planning

'TWO decades of stop-go have done so much damage to industrial expectations that marginal policies are no longer enough to give industry the conditions it needs for profitable and sustained expansion. After twenty years and ten financial crises we need more than adjustment of the exchange rate if we are to make our expansion secure, profitable and sustained.' Few members of the audience listening to Mr Fred Catherwood, M.A., F.C.A., Director-General of the National Economic Development Council, make this pronouncement last week are likely to have disagreed with him.

Whether his proposals for change found equal acceptance is by no means as certain. He was right to argue that re-development of labour without a pool of unemployed was essential to industrial progress; all that was lacking were suggestions as to how re-deployment and greater labour productivity were to be achieved. His statement that larger liquid reserves were needed to enable the national economy to expand without fear of the consequences for the exchanges is also common sense. The suggestion that the reserves could be increased by cutting back the volume of UK investment overseas, possibly by a currency levy on such transactions, is more contentious. It rests first on his assumption that more good will be done to the domestic economy than harm to the external interests. Opinions differ on this point. It also presupposes that such an infusion of cash would make a noticeable difference; a mere £100 million which Mr Catherwood estimates could be produced by such a levy will not go far to eradicate the basic weaknesses, even if it does make a marginal difference to the balance of payments.

In view of the delay in obtaining entry to the Common Market, he suggests that Britain should examine the possibility of entering some wider trading area, such as the North Atlantic region. This is interesting but, as he concedes, is premature until after the US Presidential election. The alternative is a link with the EEC without voting rights or, like Japan, to 'go it alone'. Obviously, some decision will have shortly to be made; we cannot just drift along buoyed up by hopes.

Mr Catherwood's defence of economic planning is understandable in the present state of the economy. He is right to stress the need for full publicity. Certainly his claim that the 'real experts', those '600 or so people who actually run British industry and the trades unions are represented in the big Neddy, the 24 little Neddies and their specialist committees' is interesting, even if its implications seem to have passed unnoticed.

'Quickstep' Plan for Air Freight

BRITISH OVERSEAS AIRWAYS last week announced a new 'Quickstep' plan they have produced for export/import businesses which it is believed can achieve transportation cost savings for the less sophisticated business just as the concept of 'total distribution cost' has done for the more highly-organized ones. As such, it is a completely new idea.

The plan is based on the finding that the greatest factors in depressing potential exports are late deliveries and broken promises to customers. Both internal and external reasons can cause this to happen – labour disputes, production overloads and weather are examples. It is therefore reasonable to estimate a percentage of cases during any year where to avoid the breaking of promised delivery dates the use of air transportation services may be considered, but where the exporter may well believe the cost to be excessive. However, the excess of such a cost over that of sea freight can be considered in the light of an insurance premium, to be spread over all goods exported during the year. As a percentage, such a figure becomes an insignificant part of costings, and can clearly be absorbed, and the exporter is able in general to extract a higher price from his customers for the promise, which he can then fairly make, to guarantee delivery dates.

BOAC also point out that the plan is of equal value to the importer, and that the 'premiums' are recovered even if the occasion to use the more costly air-freight does not arise.

While this new plan should not deter anyone from employing the total distribution cost concept, it clearly has every attraction to the exporters for whom it is designed.

Company Law Reform

AS a contribution to the continuing debate on the reform of company law, a new PEP pamphlet *The Control of Company Fraud*[1] by Tom Haddon merits close attention. Much of it is based upon the author's researches for his doctoral thesis and reflects his breadth of interest and thoroughness of inquiry. The author is a lecturer in law at the new University of Kent and his pamphlet covers all the major aspects of reform.

The underlying principle of his approach to the problem is simple and clear. It is that 'the law of commercial organization should reflect the realities of the industrial and commercial world'. In consequence, he advocates that a series of statutes should be enacted which would deal separately with each of the main categories of commercial organization, ranging from the massive modern corporation and the larger companies to the small incorporated business.

In the case of the public company, the author contends that the new statute should set out in detail the duties and liabilities of directors and executives towards investors and creditors, as well as employees or any one else with a legitimate interest in its affairs. Civil and criminal remedies should be available to enforce those rights.

For the small incorporated business the author recommends a new form of statutory organization similar to the French *societe en commandite* or the German *Kommanditgesellschaft.* Such a change would mean that full limited liability would be restricted to those who were not concerned in any way with the management of the company's affairs. In his opinion, the liability of those in control in the event of failure should depend on the commercial acceptability of their methods of business.

On this point the author stresses that many such companies are hopelessly under-capitalized, incur a volume of trade debt out of all proportion to the proprietor's interest and often continue to trade at others' expense when it is apparent that failure is inevitable. He recognizes the difficulties of differentiating between honest failure and fraud, but he contends that some criteria to enable such a distinction to be drawn should be made.

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[1] From Research Publications, 11 Nelson Road, London SE10. Price 10s

The author writes that the history of company fraud is a constant reminder of the fact that those exploited cannot be relied upon to see that the law is observed. There must be, apart from new laws, a new system of enforcement. To this end he advocates a new unit to be organized by the Board of Trade with the co-operation of the police and City institutions. This body would have its own investigators, accountants and lawyers.

Rules for Bids

NO one will be surprised after recent events to learn that the Council of the London Stock Exchange has felt impelled to clarify its attitude to take-overs, bids and offers for sale. It has issued two revised memoranda of guidance, the first of which relates to acquisitions and realizations of subsidiary companies, businesses or fixed assets by quoted companies and bids and offers for securities of a company. This *Acquisitions memorandum* is accompanied by a particular reference to paragraph 12 which draws attention to the Council's power to suspend dealings in a company's shares.

The second document, the *Accountant's memorandum*, sets out the requirements of the Council relating to profits, assets and liabilities for purposes of prospectuses, offers for sale and circulars. The distribution of this memorandum enables the Council to remind the accounting profession of the requirement for independent accountants' reports on these matters, in the hope that it will 'clarify points where misunderstandings have arisen'.

Deferred Depreciation Allowance in Ireland

LEGISLATION to enable tax claims in respect of depreciation to be deferred is to be introduced in the Dail shortly, according to a recent statement by the Minister for Industry and Commerce.

While all his references were to 'depreciation', it was clear from the context of the Minister's statement that initial and wear-and-tear allowances were to be the subject of the legislation. Taken in conjunction with previous official comments about the probable future admissibility of so-called 'free depreciation', it seems likely that Irish capital allowances will soon reach a unique standard of flexibility.

The announcement came with news of the building of Pfizer's new £8,500,000 organic chemical plant in Cork, all the products of which are to be for export. At present, profits arising from increased export trade are entitled to complete relief from income tax and corporation profits tax for ten consecutive years. A newly-established company, therefore, with 100 per cent exports, should normally be free of all tax for this period.

The present system expires in 1979–80 and cannot be renewed because of international agreements. Because of Pfizer's time scale and further expansion envisaged later, the company would not benefit fully from the present export tax concessions. Consequently, it had requested permission to defer a major part of its tax claims in respect of depreciation of plant and machinery in its early years in order to obtain the benefit of the claims in later years.

The Government has acceded to the request and legislation is shortly to be promoted on a general scale applicable to the country as a whole. While details were still under review, said the Minister, in principle the effect of the concession would be somewhat less than the existing relief.

A combination of 'free depreciation', i.e. acceptance by the Revenue of whatever percentage deduction a company decides to write-off, together with freedom to defer the allowances from a lean period to a prosperous period, should result in substantial benefits to exporters skilled in profit-forecasting.

Apathy in Decimal Currency Planning

MR ALFRED L. MARKHAM, Chairman of the Business Equipment Trade Association's Decimalization Section, stated at a recent meeting that procrastination and the continuance of apathy towards the change to decimal currency in February 1971 might well result in a chaotic situation at the time of the changeover.

Mr Markham said that BETA is greatly concerned that insufficient attention is being given to the urgent problems likely to be encountered before the changeover, and unless many more organizations – particularly medium-sized and smaller ones – take immediate steps to advise their machine suppliers of their requirements for the conversion or replacement of existing machines, there is every likelihood that many of them will face the prospect of joining a long, last-minute queue at the doors of companies manufacturing and marketing office machines.

Referring to the Decimal Currency Board's announcement in July that the length of the dual currency period following 'D' Day would not exceed 18 months, and that it might be possible later to announce an even shorter period, Mr Markham said: 'Whilst accepting the Board's view that it is desirable to keep the changeover period to a minimum, BETA regards even 18 months as totally unrealistic unless users notify machine suppliers of their requirements immediately. The comparisons which have been made with the changeover operation in other countries are not valid in the important respect that because compensation was paid to machine users abroad, compulsory registration was required, an operation which, by itself, would provide the information which our own business equipment industry must have to enable it to make full use of the preparatory period and to give the level of service which has always been associated with the industry.'

In the last 12 months BETA's Decimalization Section has met frequently to review various aspects of the changeover, such as investment grants, import controls, compensation, taxation, training and publicity. Close liaison has also been maintained with the Decimal Currency Board and other interested organizations during this time. Being well aware that one of the best ways of educating management on the subject is through talks and lectures, a decimalization brief has been prepared for this purpose, and has been used frequently by a panel of speakers drawn from member companies' staff.

This is My Life

by An Industrious Accountant

IT was a very careful-speaking group of managers that gathered in our conference room to hear Prinny's talk. The tiniest touch of tension was in the air, as if trouble was expected. The Ancient Mariner talked of one who on a fearful road did walk in fear and dread, this luckless character being convinced that a frightful fiend did close behind him tread – and that was rather how we felt.

Prinny was in a hang-overish mood. He'd cut himself shaving that morning and there were unsightly blobs on his cheek and his collar. Instead of opening up, therefore, with his usually jovial but insincere remarks about all being in this together, and distributing cheroots (which he charges to personnel department overheads), he blazed off a broadside right away.

He'd been doing a survey on staff selection routines, he said crossly, and wasn't at all satisfied with them. They'd got out of hand. Too many highly-paid top brass were involved in hours of long-drawn-out interviewing of lower-deck types. That sort of thing should be pushed down the line to middle-management. Giving those chaps the responsibility for their section efficiency should include letting 'em pick their number twos, thus building tightly-knit team liaison. Besides, it helped to give 'em prestige and self-confidence, shouldering responsibility for their own personal judgements, and so on and so forth.

His audience listened inscrutably. We knew what, if not whom, he was getting at. We'd seen it coming and were at action stations. We emitted thoughtful little grunts, mentally adjusting our range-finders as we narrowed the gap.

The chief maintenance engineer fired first. As he had only three immediate assistants he felt it incumbent to handpick them personally, he said. Remember, these were technically-qualified people and only technologists could assess technologists adequately, their up-to-date expertise being vitally essential in rationalizing the structural redesign on which our future projects depended.

Prinny counter-attacked on the M.E.'s three days' absence interviewing 17 candidates, on the need for scientific short-listing, and on the lack of an agreed job specification. Report on Wednesday, please, he directed, with a blueprint of future maintenance staff requirements and of desirable selection practices first agreed with his (Prinny's) assistant. That weedy assistant smiled smugly as the engineer retired, holed fore-and-aft.

Scotty then brought up the big guns. Good salesmen were born, not made, he argued. His men were picked for their potential – not for their glib patter or their A and O levels, or even their business records to date. After his years of experience, he could claim to read a salesman like a book, ye ken. (Scotty always tries to soften-up the opposition by a touch of humour), so he wouldna' jeopardize the auld company's prosperity by engaging a batch of worthless paper-backs.

He grinned hugely and said he agreed to the last syllable with the director's suggestion. He aye let his brightest laddies do almost a' the interviewing; pairsonally, he only came in at the short-list stage. Even this step, he added hastily – his radar warning him of torpedoes ahead – he was planning to omit in future, well, almost anyway.

He was too late. Prinny blasted him on the waterline with a suggestion for immediate consideration, that the three assistant sales managers should form a selection committee for the future. Scotty himself, as his first priority, must concentrate on getting another $\frac{1}{2}$ per cent on gross profit margins. Report tomorrow afternoon at 3 p.m., please, with a firm plan, were his instructions.

Oddly enough, I said unctuously, we'd been developing along these identical lines in Accounts. We'd been talking (we had, that morning); a file note was on its way to Prinny (I hadn't written it yet); we'd send copies to our colleagues to help them ('dinna fash yersel', said Scotty).

Behind this smokescreen we retired with assumed dignity.

Accounting by Objectives

by G. J. PERKINS, A.C.W.A.

PEOPLE who do not know where they are supposed to be going have very little chance of getting there. Such a statement sounds so obvious as to be ridiculous but before dismissing it as irrelevant, try putting it to a very simple test. Ask any member of your staff how his work is helping the company to achieve its objectives. Even more simply, ask him what the company's objectives are.

It is safe to assume that nine out of ten employees would be unable to answer either of these questions. That is why 'management by objectives' (MBO) is so important – indeed, many companies which have introduced MBO cannot now imagine how they ever did without it.

Accounting by objectives is not itself a new technique; it is merely the application of MBO to the accounting function. The term 'merely' must, however, be used guardedly for whilst the basic concept of MBO is a simple one, the application of it is rather more complex. It is therefore important to go into this application in detail; but first, a closer examination of the basic concept.

What is MBO?

MBO is based on the contention that the aim which any business activity sets out to achieve must be stated quite clearly before that activity is allowed to begin. The people whose job it is to see that these aims are achieved must understand what the aims are and they must be given the right kind of motivation to achieve them.

Thus, MBO recognizes that people will not give of their best to achieve the company's objectives unless they can also meet satisfactorily their own private objectives. This means that people must be allowed to take part in the setting of their own objectives and that the rewards due to them must be measured by the degree to which these objectives have been attained.

When MBO is applied to the company as a whole, an extensive review of the company's operations will be undertaken. Its product lines, the markets in which it sells them, and so on, will all be studied with a view to formulating a statement of its ultimate aims. Whether this technique is applied to the whole company or just to one function, or even to one department, the basic procedure will be the same in all cases:

(1) First, the managers of the unit in question must be told what the overall objectives of their unit are, and what particular goals must be achieved.

(2) Each manager derives from the overall objective for his unit the aims which he must achieve in his own job, showing how the work he does contributes towards the achievement of this objective.

(3) Each manager then analyses his own task to discover the key tasks, i.e. those upon which successful achievement of his aims depend. These are agreed with his immediate superior. It is important to isolate these key tasks because of the need to monitor progress. If aims are expressed only in very vague terms, such progress checks are impossible and performance is liable to deteriorate.

(4) If proper checks are to be made on progress, then care must be taken to ensure that effective control systems are in operation. Revision of existing systems is often required.

(5) Consideration must be given to any factors which might hinder or prevent attainment of the targets. The manager must decide how these are to be overcome.

(6) A system of 'progress chasing' must be set up so that each manager regularly reviews the work of his subordinates, ensuring that corrective action is taken to deal with any unfavourable positions. At all levels full consultation between manager and subordinate is vital. Where conditions have altered substantially it will be necessary to revise targets accordingly.

(7) This stage in the process obviously has valuable by-products in terms of personnel appraisal, management development and improvements in jobs and systems.

MBO in action

This, then, is MBO in theory; now for its application to the accounting function. Taking the steps in exactly the same order as above it is necessary first to determine the overall objective. Even at this early stage the benefits of MBO may well become apparent.

When, quite honestly, were the objectives of the accounting function in your company last seriously considered? Have they ever been seriously considered?

The author is a management accountant in the Corporate Management Accounting Division of International Computers Ltd.

Like the opening question, the answer to this may seem too obvious to need stating – until one stops to think about it. Most accounting functions, after all, have just grown as conditions have demanded or allowed – rather like fungi. Consequently, in the hurly-burly of producing interim statements and annual reports, cash flows and variance analyses, budgets and forecasts, no one really stops to consider what is the point of it all.

Statutory returns, of course, have to be produced, but must they be turned out in the same form and by the same methods? Could the presentation not be made clearer? More useful information be included? Some useless information excluded? Could the time-scale not be improved by analysing the methods and systems employed? Why not use critical path techniques to determine the crucial areas?

And what of all the other returns? They do not *have* to be produced at all. Certainly, management needs information in order to control its operations – but is it getting the right information? At the right time? In the right form?

Having considered such questions as these, the executive in charge of the accounting function may decide that his overall objectives are, to take a simple example:

(*a*) To produce statutory returns which provide the shareholders and the public with a clear picture of the significant financial data relating to the company and to make this information available at the earliest possible moment.

(*b*) To provide management with all the information it requires in order to control the business efficiently, ensuring that such information is confined to truly significant data; that it is presented in a readily comprehensible manner; and is received by management within a time-scale which permits effective action to be taken to correct adverse trends.

(*c*) To achieve these aims, including all supporting functions, at a minimum cost to the company.

These objectives should be explained to the senior executives of the accounting function at an open discussion. This will provide an opportunity for each man to see how he fits into the overall plan and to contribute his own views on the objectives and the means of achieving them.

Individual targets

Obviously it is very desirable that the targets set for each manager should be quantified in some way. This is more difficult to do in accounting than in, for example, sales but it is definitely not impossible.

Thus the financial accountant may have to produce the annual report by the end of the second week in March instead of the end of the third. The management accountant may have to produce the monthly statistical return for the board in a set of six foolscap sheets instead of ten. The manager of the invoicing department may have to operate with twenty invoice typists instead of twenty-four.

At this stage each manager should go away and consider his own targets, giving a great deal of thought to what he has to achieve and how he is going to achieve it. He should then produce a concise summary of the contribution he must make if the overall objective is to be achieved.

Detailed consideration

Once this has been prepared and agreed with his superior, the manager can go ahead with a more detailed consideration of the targets he has been set. For example, the manager of the invoicing department may decide that the key factors in his functions are:

(*a*) quality of staff;

(*b*) staff training-time and costs;

(*c*) control of salary and overtime costs;

(*d*) bottlenecks at peak periods.

Consideration of these factors may of itself bring about further savings. Thus, if it is difficult to get trained invoicing staff of a sufficiently high calibre, what does he do? If he pays them more than the local market average, this will push up his salary bill and he will exceed his budget. If he takes on untrained staff, a great deal of time and money must be spent training them – and then many of them leave almost as soon as their training is completed. Overtime costs are high, too, because of the extra load at the end of the month. (This always happens in spite of the fact that some staff have nothing to do during the slack weeks.)

Just having to think about these problems can result in dramatic savings. For a start, cycle-billing, i.e. sending out statements to a quarter of the company's customers each week instead of sending them all out at the end of the month, would spread the workload and eliminate the need for overtime and possibly reduce the number of staff required. There would be no need to sack anyone – the high rate of turnover would soon take up the slack.

Another point: what about the equipment being used? Could increased mechanization, or even just more modern equipment, further reduce staff requirements? A survey of this question would doubtless be worth while.

Specific definition

Each manager must now become even more specific in defining his targets. To continue the example of the manager of the invoicing department, he may decide that cycle-billing should be fully operational within three months. This will require a detailed plan to break up the sales ledger into convenient sections; a letter to all customers explaining what is going to happen, when and why; and no doubt reorganization of people and duties.

Definite dates must be set for the completion of each part of the plan and a follow-up procedure laid down to check that the expected savings on the overtime and salary costs do, in fact, materialize.

Similarly, a precise time-scale must be set for the survey on the question of increased mechanization. A decision will have to be taken as to who is to carry out this survey and the way in which it is to be done.

The targets which are set at this stage, whether they relate to the cost of operating the invoicing department, the time it takes to get the annual report published, or the amount of statistical data presented to the board, must be set with the utmost care. If such targets are clearly impossible then no one is even going to try to achieve them. Equally, if they are so easy for people to achieve that no extra effort is required, then one might as well save oneself the trouble.

A target should be set in such a way that a manager has to pull out that little bit extra which can be achieved when the incentive is there, without making the gulf between present performance and target so great that he just gives up.

Quantifying the targets

The setting of targets is a discipline which may in itself produce further savings. Basically the targets will be of two kinds: targets for continuing jobs, e.g. the routine work of billing customers and sending out statements; and targets for non-routine, one-off jobs, e.g. the introduction of cycle-billing or the mechanization survey.

In the first case it is possible to use past experience to set reasonable performance levels. Obviously, past levels should not merely be accepted as they stand, however. It may be possible to increase the number of invoices produced by each person per hour by a simple O & M study. Such fundamental, but often ignored, matters as the routing of paper work or the layout of the office can have amazing effects.

In the second case there will be no experience to go on but a target must still be set. Critical path analysis is often very useful and may produce benefits of its own by highlighting operations which are holding up operations and bringing the attention of the manager to bear on methods of overcoming them. Critical path analysis may, of course, also be used on routine operations with greatly beneficial effects.

Approval and control

At this point each manager must submit his proposed targets to his immediate superior for approval. The latter should ensure that the targets proposed by each of the managers reporting to him are compatible with his own targets and with those of his immediate superior.

Further discussion is vital at this stage so that the manager fully understands how each subordinate arrived at his targets and so that the manager can explain his reasons for changing the targets if this should be necessary.

Once the targets have finally been agreed, it is important to ensure that adequate controls exist to monitor actual progress against these targets. The only control which is, in fact, likely to be in operation in most accounting functions is the budget. Even here it may well be found that the analysis of this budget – and consequently the analysis of the variance – is inadequate to pin-point variances to the precise location or expenditure classification responsible for them.

Therefore existing controls will have to be improved and new ones set up. Where a job has to be done in a specific time, for example, a Gantt chart might be used or, if critical path analysis has been used, the actuals could be plotted against the estimates on the critical path diagram.

The control information provided must be made available both to the manager responsible for the work and his superior. They should meet regularly to discuss progress.

Discussion should also take place between the manager and his superior on the question of factors which may hinder or prevent attainment of objectives. These factors may come to light either during the consideration of the targets or during the reviews of progress. They may relate to small matters – like changing the layout of an office – or to large ones like the use of increased mechanization. In all cases a decision should be taken after discussion is completed as to what action, if any, is required.

Putting it into practice

Having agreed with his superior both the targets and the action to be taken to overcome any foreseeable obstacles, the manager can now get down to planning in detail what he has to do. He will obviously have to decide the order in which the various parts of his task are to be tackled – the main stages in the achievement of his targets; the time-scale for the completion of each stage; and the detail to support this basic break-down, showing how each stage will be approached.

Once this is done, the manager can address himself to the task itself, always remembering to assess his actual progress against the targets which have been set. As the completion date for each target comes along, the manager should discuss with his superior whether or not the target has been achieved. If it has not, then they should analyse the problem with a view to discovering the causes of the failure and taking appropriate corrective action.

These discussions should also bring out those areas in which the manager, through a development programme, can improve his job performance. When these development requirements have been pinpointed, the method of dealing with them should be made the subject of a formal plan subject to progress checks in the same way as the manager's basic job targets.

Documentation

MBO will operate much more effectively if the whole thing is committed to writing. This is not just another addition to the ever increasing flood of paper work in which most offices nowadays seem to be submerged. In fact, it has very definite advantages for the mere act of putting objectives and targets into a written form not only ensures that both parties are in full agreement but it also provides a ready-made checking document to use in assessing progress.

One piece of paper should be quite sufficient, simply showing in respect of each manager:

(*a*) his overall aims;
(*b*) his key tasks;
(*c*) the control standards;
(*d*) his actual progress against these standards;
(*e*) suggestions for improvement.

Conclusions

So much for the theory of MBO and its application to the accounting function. Contrary to what those who have merely heard a passing reference to the term may think, it is obviously not a completely new technique, nor does it involve complicated, technical formulae or esoteric high-hat terminology. This does not, however, mean that it is merely another re-hash of old techniques and obvious platitudes.

What is new – even unique – about MBO is that it concentrates on matters which appear to be so obvious that they are often ignored: yet it is in these areas that the greatest increases in effectiveness can be achieved. All too often a man puts a great deal of time and effort into producing a wonderful job of work – without ever stopping to think whether the job itself is of any value.

The accounting function is particularly fertile ground for this kind of wasted effort since it is directly responsible neither for producing goods nor for earning revenue. However, the corollary of this is that the accounting function has particularly good scope for improvement.

By imposing a formal system to ensure that objectives are properly defined, universally understood, enthusiastically followed and reliably progressed, MBO ensures that such improvement becomes a tangible reality.

Management Audit

by E. J. BADEN, M.A., C.A., A.T.I.I.

This paper, presented at the recent summer school of The Institute of Chartered Accountants of Scotland, distinguishes between the operational audit, which tells management whether the business it is managing is operating efficiently or not, and the policy audit, which tells the shareholders whether the management itself is efficient. It suggests the scope and methods of both types of audit, and discusses who should carry them out. It does not pretend to be definitive but aims to pose questions for further discussion.

WHEN I was asked to write a paper on this subject for the Scottish Institute's summer school, I thought I knew what was meant by the phrase. Nevertheless, I was then rash enough to look up a definition of 'audit' in *The Concise Oxford Dictionary*. The definition of audit given there is 'official examination of accounts'. I felt that to accept that definition and apply it to the paper I had been asked to write would narrow the subject to far too great an extent and I have therefore ignored completely this definition of 'audit'. I suspect that the use of the word 'audit' in the description of the concept arises from an attempt by accountants to make it plain to third parties that this type of work is, or should be, the prerogative of accountants. It is therefore, in any case, suspect.

As I interpret it, the purpose of a management audit is to assess the efficiency of management and I have written this paper on that assumption.

The terminology in use varies among writers, and therefore one must start by making clear what is meant. Management audit is used very loosely and the term 'operational audit' is often used as meaning exactly the same. I believe there are two entirely different components involved within the description management audit, so I give the following definitions:

Operational audit

An examination of a company's (or other organizational entity's) methods of operation and use of human, financial and physical facilities so as to ascertain how efficiently it is operating and how effectively the company's policies are being executed, such an examination to result in a report to management with a view to achieving a continuing improvement in the efficiency and profitability of that company.

Policy audit

An examination of the policy-making apparatus of the company to examine whether policy decisions taken in the past have produced acceptable results, and whether decisions recently taken are likely to do so in the future, such an examination to result in a report to shareholders with a view to achieving an efficient and profitable formulation of policy.

OPERATIONAL AUDIT

Ideas on operational auditing

This is the type of non-financial audit on which most attention has been directed to date, which is only to be expected since it can be seen as the logical next step from the financial audit and as it is in one sense no more than an extension of management consultancy. In fact the operational audit as a concept seems to have been thought up by practising accountants as a way of extending their field of auditing and not to have been positively asked for by management. If this is correct it is an attempt by the professional man to take over what should more properly be the responsibility of management but where management has not been keen to accept that responsibility or at any rate to take the initiative. There is, however, a growing tendency – particularly in the United States – for management to accept the advantages of such an audit, but in no country in the world is it as yet a regular practice and in all probability it will be many years before it is.

There are various concepts of what an operational audit should cover and, before going on to set out my ideas on the subject, I would like to deal briefly with two concepts of the operational audit which have some following in the United States, but which I do not think are sufficiently broadly based to be by themselves of more than limited value to management.

The personnel audit

One school holds that the main purpose of the operational audit is to assess the human element in the enterprise and would carry out the whole audit by the analysis of the human element only. This consists, in reality, of little more than taking an inventory of the personnel talent in the company and carrying out the job the personnel management or department should in any case be doing continuously. The benefit is that the auditor is probably able to interview in rather greater depth and more objectively than is more normally done internally in the enterprise. The purpose is not only to determine the quality of the people in the business but also whether they are the right people for the positions they hold and in the right sort of jobs for their personalities and qualifications.

The proponents of this concept generally wish to carry out all sorts of psychological tests, performance ratings, initiative ratings and similar pseudo-scientific methods of assessing individuals. While a report based on such a procedure may well be of value to management, it covers only a proportion of the whole area of what I would regard as available for an operational audit and I would therefore discard it as a concept, though the use of such procedures may well be of value as part, but part only, of a full operational audit.

The 'party line' concept

Of a similar nature is the concept that the operational audit should determine how far the company has been able to 'brainwash' its employees to accept its objectives and beliefs and therefore to be more effective in carrying through the policies of the company regardless of how right these objectives, beliefs and policies are.

Allied with this is an attempt to see, from the opposite point of view, how far the company is satisfying the ambitions of the individual and providing him with the sort of work and opportunities which he wishes to have and is capable of dealing with. This concept once again is far too restricted, and I personally would doubt whether it should hold any place at all in a true operational audit.

Methods of operational audit

Before proceeding to what I would regard as the essential elements of an operational audit, it is necessary to examine the methods by which such an audit could be carried out, since the two problems, the what and the how, are very closely inter-related.

There are three methods in general use today which can be summarized as the do-it-yourself, the extended internal audit and the diagnostic.

Do-it-yourself audit

The do-it-yourself system relies on questionnaires which are provided to management and by means of which management can, provided it answers the questions honestly, form an assessment of whether things are going correctly or not. The questionnaires in general are of the type used by most practising accountants for internal control questions and generally require merely 'yes' or 'no' answers.

The system has the very grave disadvantage that if it shows things are not going satisfactorily it offers no solution to the problem, which has to be solved either by management itself or by outside consultants called in for this purpose. If the latter is the solution, it will probably mean starting all over again, since the consultants may well not accept the answers already given by management as being correct.

It is certainly difficult for any management to give objective answers on a questionnaire concerning its own business. Some of the questions included in typical questionnaires must be extremely difficult for managements to answer even if they fully understand them. To take one or two examples of suggested questions:

On organization – Are you making the best use of the line and staff concept?

On stocks – Is your rate of stock turnover satisfactory?

This type of approach might, however, be of some use if a third party came in to check the answers, as well as ensuring that the questionnaire was clearly drafted and suitable for the business concerned.

Extended internal audit

The extended internal audit concept is very much more common in the United States than it is in this country, where there is no agreed definition of what an internal audit should cover and no British body of internal auditors. In the United States the Institute of Internal Auditors, to which most internal auditors in the United Kingdom belong, includes among a somewhat lengthy definition of internal audit the following phrases (though not consecutively):

> 'The internal auditor, therefore, should be concerned with any phase of business activity wherein he can be of service to management . . . ascertaining the extent of compliance with established policies, plans and procedures . . . appraising the quality of performance in carrying out assigned responsibilities.'

There is no logical reason why the internal audit group should not carry out the operational audit, provided that its personnel content is overhauled so that it is capable of carrying out such an audit efficiently. It will probably also want different lines of responsibility upwards, and direct access to the person or persons who take final responsibility in the company is essential.

Diagnostic audit

The diagnostic approach is concerned purely with determining whether the operations of the business are being carried through satisfactorily and ignores the finding of a solution to any problem which may be thrown up during the course of the diagnosis. It looks at the company's objectives, structures, procedures, controls, etc., to see what might be important and to determine where there is waste of whatever nature it may be, e.g. physical, human friction, wasted paper work, etc.

This type of operational audit is normally carried out by some form of internal management service group in the organization, though on occasions by outside consultants. In either case the corrective action is taken by the other management groups within the organization.

There is but little difference between the extended internal audit and the diagnostic concepts other than the base from which each starts, which, of course, tends to colour the form the audit takes.

Purpose of the operational audit

The purpose of the operational audit is to serve management. It is suggested that management is most likely to require from such an audit:

(1) an indication that the organization is working efficiently or, if not, in what areas action is required;

(2) a warning that there is possibly danger or difficulties ahead so that preventive action, which is always better than therapeutic action, can be taken;

(3) the avoidance of repetition of mistakes;

(4) information to enable earlier corrective action to be taken; and

(5) the improvement of profitability.

If the audit is going to fulfil these functions, it is suggested that its scope should be as follows.

Scope of an operational audit

The matters that fall within the operational audit must vary according to the type of business and according to the interpretation management puts on the term 'operational audit'. Broadly speaking, however, those who have studied the subject are agreed that ideally the operational audit should cover the following facets of the business:

General management

Firstly, the operational auditor should make certain that he has a clear picture of the organization of the business and where the various stages of management responsibility lie. The first job of the operational auditor is therefore to draw up an organizational chart and job specifications, if not already in existence, and from these see if the organization of the business is efficiently subdivided. Following on from this he would then review the general management to see that the most senior people in the business were properly delegating the appropriate functions to avoid the spending of time on unnecessary detail and were receiving at regular intervals such reports as they might need in order to carry through their functions efficiently.

The top people would require information both on internal and external matters. On internal matters they would require to know whether the targets set for the various parts of the business were being met, be they targets sales, production, overhead costs, etc. They would also require reports on the profitability and its comparison with budget together with explanations of any variances. On external matters, top management should receive regular reports of any new factors affecting the business or the industry in which the business is working, any new factors affecting national trading policies or practices which might impinge on the business, or any international trading changes which could affect either the import of materials needed for production or the export of the finished goods.

Having dealt with the more general matters, the operational auditor would then concentrate on the various different facets that are applicable to almost any business and which are dealt with one by one below.

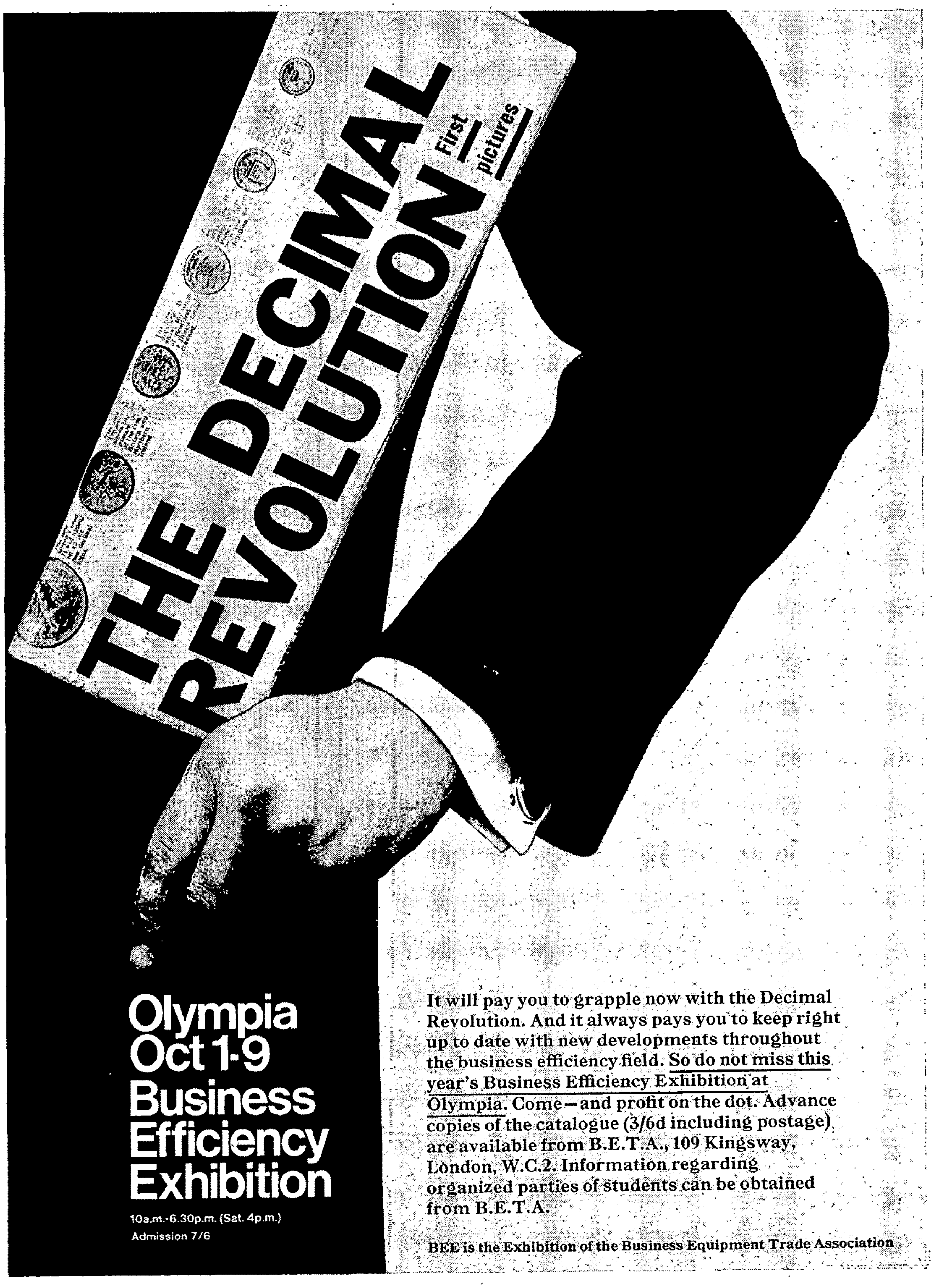
Production

The auditor would look at all the various sides of production – purchase, storage, production, inspection, internal transport, dispatch – and also at those parts of production slightly separated from day-to-day matters – the future planning and the buildings in use and their layout.

In any business which has production as one of its main concerns, planning is a vital part of the overall structure and the whole production line can be stopped or made inefficient if planning of all stages of production has not been properly carried through.

From the point of view of purchase, it is essential to ensure that any specifications for materials are adhered to, that the materials are delivered in the right quantities at the right time at the best possible price and that there is the necessary procedure, in particular for checking that the price currently being paid is the best. There must be close contact with the inspection department, since it will presumably be necessary to check the raw material just as much as the finished product, as any mistakes in the raw materials not discovered until the final product is ready for dispatch can be extremely expensive.

The goodwill of the buyer *vis-à-vis* his suppliers can also be of extreme value to the business, particularly in times of shortage of supply, and is another factor which should be looked at by the operational auditor. The mental flexibility of the buyer and his approach to new materials, new methods of purchase, etc., can also be a vital factor and



**Olympia
Oct 1-9
Business
Efficiency
Exhibition**

10a.m.-6.30p.m. (Sat. 4p.m.)
Admission 7/6

It will pay you to grapple now with the Decimal Revolution. And it always pays you to keep right up to date with new developments throughout the business efficiency field. So do not miss this year's Business Efficiency Exhibition at Olympia. Come—and profit on the dot. Advance copies of the catalogue (3/6d including postage) are available from B.E.T.A., 109 Kingsway, London, W.C.2. Information regarding organized parties of students can be obtained from B.E.T.A.

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British Olivetti Ltd., 30 Berkeley Square, London, W.1.

should concern the auditor. He should ensure in addition that the buyer is keeping adequate records of suppliers, of technical matters and developments in various parts of the world and is taking all necessary opportunities of keeping himself up to date on all aspects of his work.

Storage is a somewhat simpler matter and requires in the main only three types of examination, firstly to see that stock levels are laid down and are correct, secondly to see that the records regarding the items in stores are properly kept and that internal control is adequate in relation to them and thirdly to see that physically the stores are kept in the right place both to ensure there is no physical deterioration and that they are easily accessible when required, and that the correct handling methods are used on any movements.

Inspection should take place at all stages of production if there is any likelihood, by this, of being able to eliminate faulty goods at an earlier stage than would otherwise be possible. The inspection department should receive copies of any letters of complaint from customers so that they can tighten their procedures if necessary and/or arrange for laboratory tests on the product if they themselves are unable to ascertain from their own type of inspection that anything is at fault. The percentages of faults and waste can be of particular concern in certain engineering businesses and this in part may well be the responsibility of the inspection department.

Internal transport and dispatch concern the auditor so that he may ensure that the moving of goods within the factory is kept to the minimum and that there is the most economic flow possible all the way through production from receipt of raw material to the final dispatch of the finished goods. The buildings in use and the layout of the buildings may have some considerable effect on this, and the auditor should be prepared to report not so much on the structure of the building as on whether it is suitable for the type of work carried on therein and whether any improvements can be made of a non-structural nature that could improve either the flow through the various processes or increase the amount that can be produced from the existing machinery.

Finally, and most important in this section, the auditor will have to check the actual production methods in use, the policies that are being followed and the variances from the production targets that may be in existence. He must ensure that the machinery being used is the best for the job in question. This will not necessarily mean the most up to date or the most expensive but merely the best in the current economic circumstances at the time, taking a view not only of the present position but also of the likely future advances in technical matters and the advantages, if any, that competitors are getting by using different machinery. The auditor by himself may not be competent to give an answer on technical machinery, but in such circumstances he should ask questions either internally or externally of technical specialists.

Distribution

The auditor's attention will be focused next on the distribution function. This covers not only the physical distribution but sales records, service facilities, publicity and advertising, credit collection, travellers and representatives and their records, and methods of dealing with complaints.

The auditor should check what happens between the receipt of an order and its dispatch, and see that the goods are properly packaged. He should ensure that the method of distribution combines speed and economy in the right proportions, and is satisfactory to the client.

The auditor should ensure that the salesmen or representatives are economically distributed round the country, taking into account the objectives of the company, the sales in various parts of the country and the profitability of such sales. He should ensure that the salesmen keep records, not only of their sales but also of any comments or complaints by customers. He must satisfy himself that sufficient information is flowing back on a regular basis to the management of the business so that they are at all times up to date on the current position of sales subdivided into the various categories that may be necessary, both for the planning of production and of policy with regard to advertising, and so that they receive at the earliest possible time a warning of any new problems being caused by competition.

The auditor should ensure that any complaints are properly investigated and followed up, and that the necessary action is taken to ensure good customer relationships with those who have complained. The methods of advertising, public relations, and the use of point-of-sale materials should all be reviewed to ensure that they are adequate without being over-expensive and are distributed in a logical way.

To the extent that this is not already being done by the financial audit, the operational audit should check the giving of credit and the collection of outstanding amounts, not so much to look at the possibility of bad debts as to see whether credit is given unnecessarily or for longer periods than is essential.

The auditor should also look at the service facilities offered and whether what is offered is in fact given to the customer (assuming it is the company's intention to do this). He should also check that it is a necessary service and that the costs of such service are duly taken into account in any overall assessment of the profitability of various parts of the business.

Development

Having looked at both production and distribution, the operational auditor should then look at the plans for development to ensure that such plans do exist, that if they exist they are feasible, that there are methods available of obtaining any necessary finance for such development and that it would appear that such development would be profitable and not merely provide an increase in status without a corresponding financial reward.

Administration

Having looked at these aspects of the business, the auditor must then look at the administrative side. It is assumed that the accounting procedures in use in the business are reviewed regularly by means of the annual financial audit. The operational auditor would, however, go beyond the financial figures to look at the cost records and methods of cost control that have been established and to see that both the costing and the financial information supplied to management is accurate, prompt, relevant, readily understood and sufficient (without being too bulky) to enable the management to be fully efficient. In addition to costing and accounting records in financial terms, there should be a wealth of other statistical information on volume of sales etc. which should also be flowing up to the decision-making strata of the business.

The auditor should look too at the flow of documentation to ensure that the clerical procedures throughout the business are efficient and the best possible for the particular type of business being examined.

Personnel

Firstly, the auditor should ensure that the staff employed in *all the* separate functions are necessary and sufficient and that, where possible, their number varies with the volume of business.

He should then review the employee relationship, particularly in an industry where trade unions are concerned. He would review the relationship with any trade union at all effective levels from the shop steward/works foreman to general secretary/chairman and see that the lines of communication between the two parties are being properly and effectively used as and when required.

Another object would be to determine whether the methods of recruitment and training are suitable for the type of business; whether the staff are of sufficient standard and have the necessary qualifications to carry out what they are required to do; and that the morale of the employees as shown by turnover of staff, sickness, absenteeism, etc., is of the necessary standard; and that suitable welfare facilities, both within the buildings and externally, are made available to the employees. He should also ensure that management succession plans have been made and that the personnel required are available to implement them.

Taxation

Finally, the auditor should ensure that the methods of operation used, the organizational structure and the production and buying policies result in the minimization of any taxation, whether such tax is on the profits, on the number of staff, on land or buildings, on share capital, on purchases or sales, and that full advantage is taken of any taxation concessions or grants, particularly those relating to the purchase of equipment and buildings.

General

There is no room in a paper such as this to describe how such an operational audit is carried out. It must obviously combine an examination of written records with discussions with those responsible for various aspects of the business, and knowledge of the aspect of the business being audited must either be already held by the auditor or specially studied to enable him to carry out the audit properly.

The final stage is, obviously, the report to management, but the whole audit team should regard the audit as in part educational and their job not only to criticize those parts of the business which are not fully efficient but to help those people who are responsible for this lack of efficiency firstly to recognize the inefficiency and then to put it right and do a better job in future.

The audit requires to be continuous rather than annual to be really effective, and will measure the results of a department's work over the past, in the present, and as estimated for the future, taking into account all the varying conditions.

The report will in most cases suggest a solution, though there will be some matters where the action to be taken must be left entirely to the management.

The auditor

If one accepts that the scope of the audit should cover those aspects of a business mentioned above (and there may well be others, for this list does not pretend to be exhaustive since one is moving in relatively uncharted waters) and that the only two methods which are likely to serve management are the diagnostic and the extended internal audit concept, leaving the do-it-yourself check list on one side, then one can try to decide what qualities are needed by the auditor.

It is unlikely that there is any one qualification that would enable one man to cover all the facets of an operational audit as it has been described here. It has been suggested that fellowship of the British Institute of Management would be the best general qualification, combined with several years' experience of actual management at various levels in a business, and if one is looking for one man to head an operational audit team this could well be the right basis.

On the assumption, however, that whether the audit is being carried out by an internal group or by some external firm, there are likely to be a number of people in the team, it is suggested that what is required is a mixture of experienced, qualified and forward-thinking engineers, salesmen, personnel managers, O & M experts and accountants who, while each auditing that particular aspect of the business in which he is experienced, will cross-fertilize each other with ideas and viewpoints.

Such a team should be headed if possible by an entrepreneur who can keep the technical aspects in perspective and keep an overall grasp on the main object of the audit – to show how the business can earn more profits. But, whatever the person concerned has by way of qualifications, there is no doubt that experience in business is essential and that an audit carried out by persons with only theory and paper qualifications to guide them would be likely to be completely ineffective, due partly to their lack of experience and partly to the fact that the management of the business would be unlikely to have any confidence in their report.

The audit is probably better carried out by an outside body in any group other than the very large, in order to obtain the advantage of more varied experience. If, however, it is to be done internally, whether by a special operational audit group or by the internal audit section the auditors will require strong support from top management to enable them to do their job properly.

The end product

More important than anything, however, is to ensure that management, having received the report, take action to eliminate any defects shown or to make any improvements possible. This can be done either by having a separate follow-up group whose job it is to initiate action to put right any inefficiency found, or by a system of management having to report to the chief executive of the business within a stated period of the audit report, and regularly thereafter, what action it has taken to eliminate the inefficiency, or if it has taken none, why? In any case, if the requisite action has not been taken, this should be commented on in the next operational audit report.

(*To be concluded.*)

Business Efficiency Exhibition

Accent on Decimalization at Olympia

EMPHASIS will be placed on decimalization by many of the office machine manufacturers exhibiting at the 61st national Business Efficiency Exhibition organized by the Business Equipment Trade Association which opens next week at Olympia, London.

At an inaugural luncheon next Monday – preview day for specially invited guests of the industry and the Press – Sir Peter Runge, a deputy chairman of the British National Export Council, will officially open the exhibition. It will be open to the public from Tuesday, October 1st, until Wednesday, October 9th, from 10 a.m. to 6.30 p.m. (4 p.m. Saturday), admission 7*s* 6*d*. A special students' centre will be available where younger visitors can obtain practical experience by trying out for themselves some of the new equipment.

The Decimal Currency Board will, for the first time, have an information stand at the exhibition. Among the problems it will doubtless have to deal with will be those contained in a recent warning given by the President of BETA, Mr. J. D. Forbes Watson, who said that the ramifications of decimal currency have yet to be fully realized. He pointed out the need for potential problems and likely solutions to be highlighted now – and not in a year or two.

Few of the larger computer manufacturers will be taking part at Olympia this year as they participated in the 1968 Congress of the International Federation for Information Processing at Edinburgh in August (reported in *The Accountant* of August 3rd and 17th). Many small desk top computers will, however, be on display together with other equipment ranging from accounting machines to office furniture.

Brief notes on a selection of the exhibits follow.

Desk-top Computers and Calculators

NEW models of SADIE and SUSIE will be on show, with larger storage, faster data processing and sophisticated programming facilities on each machine. These new computers have eight memories of 16 digits, which can be split to give eight- or four-digit memories under program conditions. In addition, SADIE can be provided with up to 100 eight-digit memories.

Storage on SUSIE consists of up to 7,168 four digit/three alpha characters. The storage is modular in principle, expanding from 256 registers. Alpha characters can now be written into any store. It also has six program commands buffered so that it is not necessary to wait for the appropriate drum position before getting the next program step. The computers have a one millisecond delay line as against

Sadie and Susie computers have now been given a new style desk and a new style punch and reader unit.

three and a half milliseconds, and a shunt can be completed in five milliseconds as against 38 before.

Input/output printers available are either the IBM 735 with an automatic printing speed of 15½ characters a second or the Hermes KP11 with an automatic print speed of 12 alpha and 18 numeric characters a second. Two types of front feed carriage are available, either with manual or automatic feed and ejection. All input/output writer contacts have built in parity checking systems.

A hopper feed edge punched card reader is available capable of processing up to 200 edge punched cards automatically without operator intervention. Both the hopper and tape readers will skip/read at speeds up to 200 characters a second. The punch is capable of punching up to 40 characters a second.

On both models there is the facility to regenerate punched paper tape without hard copy printout. This enables the operator to 'dump' data from the memory at 40 characters a second, or input a fresh program at the same speed.

Business Computers Ltd, 180 Tottenham Court Road, London W1. (Stand 60/88.)

DESIGNED to meet the invoicing, statistical and accounting needs of firms of all sizes, the Logatronic digital computer uses solid state logic. Installations which can be tailor-made from 500 to 4,000 program memories cost between £3,000 to £15,000 and some qualify for the Government's computer investment grants.

The basic equipment is a standard ten-key input keyboard, an electric typewriter and the control unit which incorporates data and program stores. Input and out peripheral equipment can be linked to this basic equipment.

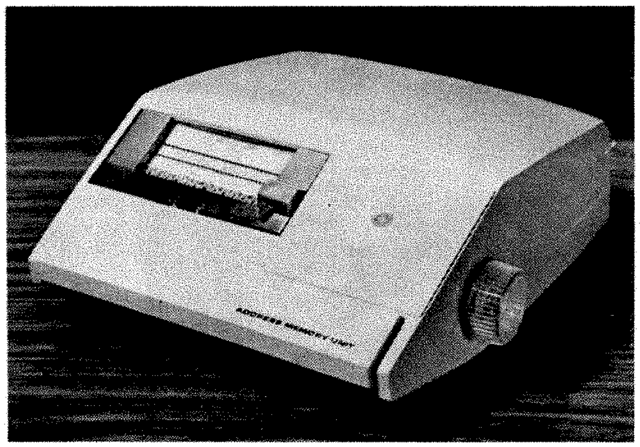
Sumlock Comptometer Ltd, 39 St James's Street, London SW1. (Stand 219.)

AN address memory unit which can store 80,000 characters of data, such as a customer's name and address, item description, unit price, etc., the new Litton model 50 AMU can be added to the Litton EBS 1210 computer in single or multiple units to provide the advantages of a full-scale computer at a fraction of the cost.

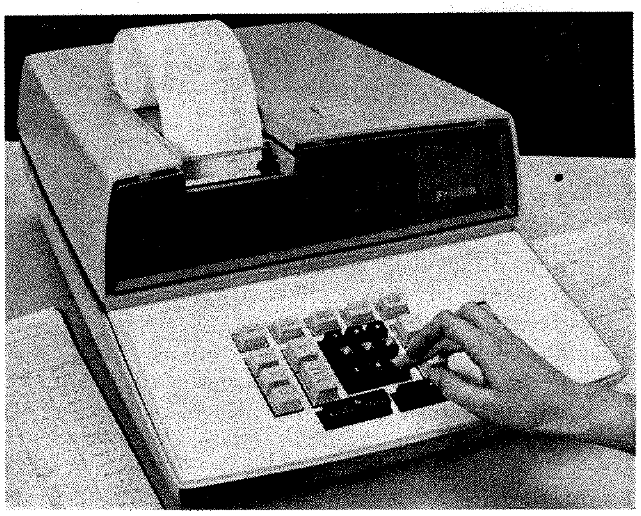
Litton Business Systems Ltd, Litton House, Goswell Road, London EC1. (Stand 25.)

THE Data 4000 and 8000 visible record computers, the Logabax 3200 push button controlled computer and several machines in the automatic typewriter and data preparation range will be shown on the Philips Electrologica stand this year. All of them will be working on actual customers' programs so that visitors will be able to assess the method of machine working for themselves.

Philips Electrologica Ltd, 21 Buckingham Palace Road, London SW1. (Stand 226/230.)



The Litton EBS Model 50 address memory unit.



The new Friden 1150 electronic printing calculator.

AN electronic invoicing machine – the Friden 5023 computer – is ideal for wholesalers and others in a similar business. Input can be from edge punched cards or from paper tape and can also be introduced through the Flexowriter keyboard which allows for the quick updating of all punched records and means that the machine can be operated by any comptent copy typist after short training.

This model has nine registers each of 12 digits for storage and two operating registers. Programs are housed in an easily removable and interchangeable panel. Average multiplication time is 450 milliseconds, addition and subtraction 10 milliseconds. Automatic typed output is at 12 characters a second, and the machine can operate in either sterling or decimal currencies.

Another small electronic calculator the Friden 1150, which is no larger than an office typewriter, allows up to three intermediate answers to be stored for later use. This removes the danger of errors in re-entry on multi-part problems. There is also a memory register for retention of constants. An exclusive feature which contributes to the low cost of the machine is the helical printing wheel about the size of a shilling which has all numerals and mathematical signs engraved on its edge. When the machine is in operation, the wheel spins across the surface of the tape and prints the factors entered and the results of calculations at 37 characters a second.

Friden Ltd, Friden House, 101 Blackfriars Road, London SE1. (Stand 115.)

THE nearest to a large computer installation at the exhibition will be NCR's theatre display of their Century range of machines, but they will be showing the 500 class visible record computer, the new class 735 magnetic tape encoder together with the new 400 magnetic ledger card accounting machine which is externally programmed by means of a loop of mylar tape.

Other accounting machines will include the dual-currency Class SD31, working in either £ *s d* or decimals, the changeover being effected by two simple levers, and a Class 32 wired for creating alpha input and check digit verification. The new Class 14 ten-key adding machine will be shown, and another one will produce rolls printed in NCR optical font for input to a computer through an OCR reader.

An NCR point range adding machine, an accounting machine and a sales register will also be available at the Students Centre.

National Cash Register Co Ltd, 206/216 Marylebone Road, London NW1. (Stand 56.)

TWO new calculators are available from Monroe this year. The 570 has a capacity for listing of 10 digits and for totalling of 15 digits, with a speed of 800 r.p.m. for multiplication and 200 r.p.m. for addition, subtraction or division. A single multiplication can be carried out without disturbing the total or clearing the machine. There is no need to reset a number when using the automatic constant in multiplication and multi-factor multiplication and accumulation can also be accomplished. The price of this model is £340.

The model 580 has a simplified ten-key electric keyboard with display dials showing which keys have been pressed. The operator enters the decimal point in each number when it is set up on the keyboard and the machine automatically points off the answer – up to 14 decimal places in the products and seven decimal places in quotients. This model has also been designed to cope with the 1971 halfpenny. When the ½*d* is used in a calculation the answers will automatically be rounded off to the nearest whole penny. This feature ensures that line extensions of an invoice will add up to the stored total. This machine costs £565.

Litton Business Systems Ltd, Litton House, Goswell Road, London EC1. (Stand 25.)

PROGRAMS can be entered directly through a keyboard into the IME 86 S desk calculator, or read into the Digicorder DG 308 from edge punched cards as one of the peripherals of this calculator capable of a 512 step program with logical decision and jump facilities. The IME 86 RM is circuitally identical to the 86S but with a special decimal point card on which the decimal point is preset. These and several other machines will be seen in use on the Muldivo stand.

Muldivo Ltd, 28/42 Banner Street, London EC1. (Stand 28.)

PUNCHED paper tape and edge punched card input or output are features of the Ruf Praetor electronic accounting machines which will be displayed working on various accounting procedures. There will also be an 'information centre' which will give callers information as to what Ruf hardware and software can do for them.

Ruf Organisation Ltd, Haywards Heath, Sussex. (Stand 120.)

SMALLER and lighter than a portable typewriter. That is the claim for a new electronic calculator – the Casio 152 – which provides all the figures to an answer with a floating decimal point, or can be used with a fixed decimal point, either rounding off or rounding down the last figure, whichever is required. The machine, which takes up a square foot of desk space, weighs 12 lbs and costs £460.

There is also a useful automatic multiplication key giving intermediate results in chain multiplication and apart from the usual calculating registers there are two additional registers with a large capacity of fifteen digits each, both of which can be used either to store constant factors or accumulate entries and results, and as a further time-saver, one of them accumulates either positive or negative results automatically.

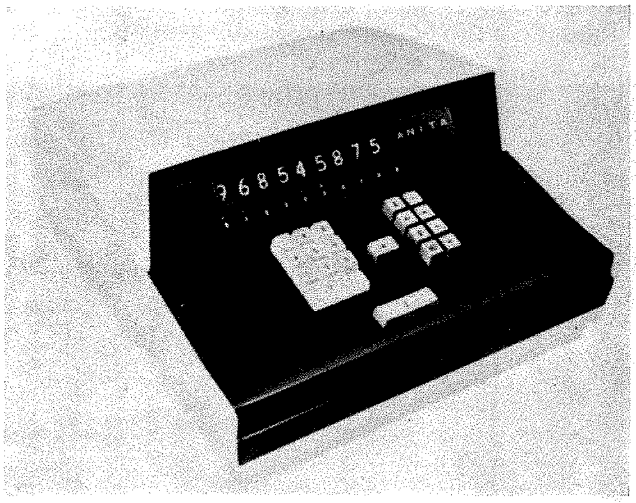
Automatic Business Machines Ltd, 15 Cromwell Road, London SW7. (Stand 8.)

HIGH speed, desk-top calculators which provide a printed record of all factors used, machine functions and results, and can handle the most complex commercial or technical calculation rapidly and accurately is provided with the Conti machine to be shown on the Sumlock Comptometer stand. It has many programmed features including automatic square root. There are two models. One with three stores costing £898 and the other with ten stores at £1,085.

On the same stand, a pound/decimal model designed to work in whole numbers, or whole numbers and decimals – the Plus Adder 509 £D – will have the new keyboard for dual currency working. A nine-column key model costs £42 and the twelve-column key model £54.

Launched earlier this year, but not seen previously at Olympia, a simplified and therefore inexpensive version of a display electronic calculator will retain the reliability and other basic features which have become associated with this equipment. This model, the Anita Mark II, also on the Sumlock Stand, costs £298 and is claimed to be the lowest price unit of this kind on the market. The Mark 10 and 12 units at £480 each will also be on display.

Sumlock Comptometer Ltd, 39 St James's Street, London SW1. (Stand 219.)



The Anita Mk II calculator.

AN extremely small, solid state calculator (it takes no more space that a sheet of A4 paper) the ADM Toscal 1412 has a new selective decimal point system. The position of the decimal point during calculations is floating but adjusts automatically to a preset decimal setting at 0, 2, 4, 6, or 8 places when an answer is obtained. In mixed multiplication and division operations the machine will automatically store the instructions to multiply or divide, no matter how long the program, thus enabling the machine to accumulate composite calculations automatically. This is valuable in combined percentage increase and discount sums.

Other features of this machine include an automatic round-off facility, automatic clearing as soon as the power is turned on, and an overflow light which attracts attention if the capacity of the machine is exceeded. Answers to calculations may be accumulated automatically in the storage register, whilst individual figures can be entered into this store simply by pressing the memory key and retained for further calculations.

ADM Business Systems Ltd, 64–66 King Street, London W6. (Stand 437/440.)

AN electronic calculator on which the totals can be accumulated and then divided or multiplied, or totals stored for recall at the end of other calculations is being launched for the first time in the United Kingdom by Remington Rand. Called the EDCIII it has a capacity of 20 digits and a read-out display. In addition to the calculations above, it will also do continuous multiplication, negative multiplication, division or multiplication with a constant or division with accumulated quotients. The price is expected to be £450.

Remington Rand Division, Sperry Rand Ltd, 65 High Holborn, London EC1. (Stand No. 57.)

Microfilm Readers

A FAST new microfilm printer, capable of reproducing prints at the rate of ten a minute in sizes up to 18×24 in. from microfilm images will be demonstrated for the first time at the exhibition. Up to 200 microfilm aperture cards can be loaded into this machine – the System 600 – and cards are fed automatically in sequence. As many prints as necessary (up to 99 off) can be made on to unsensitized paper in any size from 8¼×11 in. up to 18×24 in. Translucent intermediates can also be made if necessary as any one of three different paper sizes or types of material can be selected at the touch of a button.

Rank Xerox Ltd, 338 Euston Road, London NW1. (Stand 97/113.)

THE full range of the Recordak microfilm readers and printers will be shown this year, including the Miracode storage and retrieval system, and the new Rotoline microfilmer which films from continuous stationery at the rate of 160 feet a minute.

Also the Commercial, Lodestar, Magnaprint and Magnafiche readers will be on view, together with the Portable and Reliant filmers and the Prostar film processing unit. The Reliant 600K, which is already in use in the Bank of England and in the new Post Office Giro Centre, will also be shown.

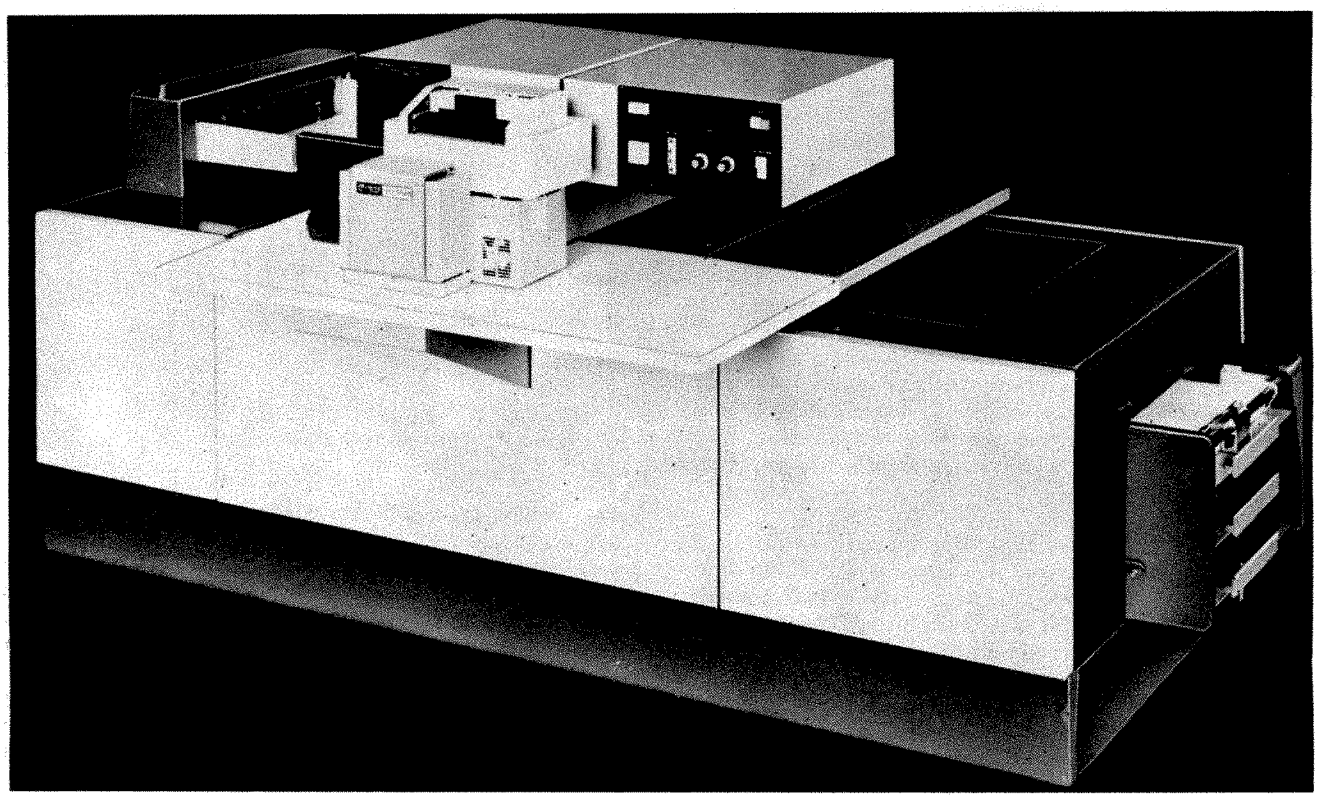
Kodak Ltd, Kodak House, Kingsway, London WC2. (Stand 208/215.)

PCMI (Photo-Chromic Micro Image) from NCR will be shown at their stand in working form, showing how information can be compressed so that 3,000 pages of information can be presented on one sheet of 6×4 in. film. This can be retrieved in the special reader and reproduced at full-size if required.

National Cash Register Co Ltd, 206/216 Marylebone Road, London NW1. (Stand 56.)

Copiers and Duplicators

ALREADY well known for the quality of their reproduction, the Rotaprint range of machines, from office duplicators to high quality printing machines, will be on show again this year. The R10/75 which is the smallest and most easily



The Rank Xerox 600 microfilm printer.

operated model is priced at £585. The R10/75QC is the quick change version with special attachments which will speed up output and simplify operation. The R18/75 is the large size office machine to take paper of 13½×17½ in. in size.

As well as the R40/80, the R30/90, the R95/3R and R95/2C, there is also the special R30/CS which is a continuous stationery printer for computer users and the R20/3R/V which will handle an A2 sheet (16½×23½ in.) and has all the advantages of a printer's machine.

Also on show will be the A40 platemaker and an exposure unit for printing down plates.

Rotaprint Ltd, Honeypot Lane, London NW9. (Stand 239.)

THE new Omal 241 electrostatic copier which earned £2 million worth of export orders when shown at the Hanover Fair earlier this year, will be on view for the first time in Britain. This desk top machine will cost £249, or can be leased or rented. The Omal Rex Rotary 1500 small offset machine, and the platemaker for it will also be on show, as will the Rex Rotary stencil duplicators and their special stencil cutters, the models 2000 and the 2200. The RR3000 Thermal copier will be shown, and the overhead projector, and among other items the Omal Rex dictating machine.

Omal Group Ltd, Omal House, 170 Tottenham Court Road, London W1. (Stand 107.)

TWO desk-top electrostatic copiers will be seen on the SCM stand, the Coronastat 44 which produces up to ten copies automatically from one original up to 11×17 in. in size, and the Coronastat 88, claimed to be the fastest desk-top copier in the world. This machine is ready for action as soon as it is switched on, and originals can be fed in at the rate of one every four seconds, giving up to 840 copies an hour. The multiple copy control enables up to ten copies to be made from one original, and originals and copies are separated and stacked in sequence. Offset masters and coloured copy papers can also be run in this machine.

SCM (United Kingdom) Ltd, 248–250 Tottenham Court Road, London W1. (Stand 304.)

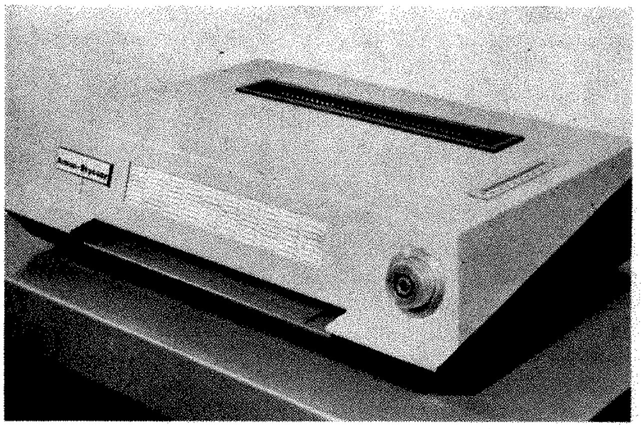
ITEK 910E platemaking units will be on show on the Kodak stand suitable for producing size for size offset masters on Verilith materials, and also the 10·15R(E) unit which incorporates image size variation and multiple exposure facilities. Also on the stand will be Readyprint, Cavalcade, Witness and Signet copiers with actimeter and offset adaptor facilities.

Kodak Ltd, Kodak House, Kingsway, London WC2. (Stand 208/215.)

ONE of the most significant developments in office copying for years will be shown for the first time in Britain – COLOUR Copying. The first of its type in the world, it takes about 60 seconds to produce an 8½×11 in. colour copy, and requires no liquids to formulate it. The colour reproduction, particularly of half-tones and solids, is said to be excellent, and the copy stability is equal to or better than most colour photographs.

3M Company, 3M House, Wigmore Street, London W1. (Stand 227.)

FIVE separate kinds of copying equipment will be shown on the Anson-Skycopy stand. These are the Minolta electrostatic rotary copier which is priced at £239 and will produce copies at the rate of six a minute. The Mark 2 Minolta Fax electrostatic machine is a book copier which will reproduce even from three dimensional objects, and has the facility for reduction copying of originals up to 11¼×16 in. down to 8¼×11¾ in. in size.


Anson's Skycopy thermocopy multi-purpose machine.

Several models of the diffusion transfer copiers are available priced at £69 to £160. There are vacuum head models which will produce litho plates in under five minutes at a cost of less than 5*s* each. Three dyeline copiers will also be shown ranging from the Regal at £370, the Separate at £280 to the Major SM2 at £83 10*s*.

A new machine is the Roto 611 small offset duplicator which will print any normal office literature at speeds from 3,000 to 6,000 copies an hour with a print area of 9⅜×12½ in. The machine measures 33½×25⅝×19¾ in. and weighs approximately 220 lb. It costs £525.

The fifth kind of copying will be the Thermocopy machine for producing copies of almost any document, high quality spirit masters or transparencies for overhead projectors in a few seconds. There is a feed width of 9 in. so copies of this width by any length can be produced. The weight of this machine is 22 lb. and the cost is £95.

Anson-Skycopy Ltd, 75 Southwark Street, London SE1. (Stand 219B.)

THE model 466 is the latest stencil duplicator in the Gestetner range. This, together with the company's range of stencil cutters and smaller duplicators will be on show.

The 201S systems model and the 202 offset duplicators will be seen in operation. The 201S has a control panel on which the complete printing cycle can be programmed and once the operating cycle has commenced, the machine will do the rest. The model 202 is capable of printing an image area of 10½×16½ in. on 11×17 in. paper.

Gestetner Duplicators Ltd, P.O. Box 23, 210 Euston Road, London NW1. (Stand 218/220.)

Paper and Banknote Counting

TWO new machines will be added to the wide range of note-counting machines this year. These will be the De La Rue 120HD, a heavy duty version of the 100E counting machine, and the Notebander which operates with the 500/4 note-master counting machine. This unit is now capable of counting and banding up to 500 new or used banknotes automatically into tens, or other than tens if required at the speed of one pack every three seconds.

Other machines in the company's range can count coupons or items other than banknotes if required, and a sheetmaster which will count new paper of any sheet size at the rate of 4,200 copies a minute.

The De La Rue Company Ltd, P.O. Box No. 2, 84/86 Regent Street, London W1. (Stand 65.)

Addressing Machines

ADDRESSING machines which will print up to nine lines are now available on the model 880, which would be ideal for rental or subscription renewal invoices. It is also available with a label feed. The standard five-line model will address up to 1,500 envelopes, statements cards or labels an hour. Faster, fully automatic machines such as the models 2000 and 3000 will also be on show as well as the STEN-C-LABL package addressing and identification system which will mark almost any surface at 40 a minute.

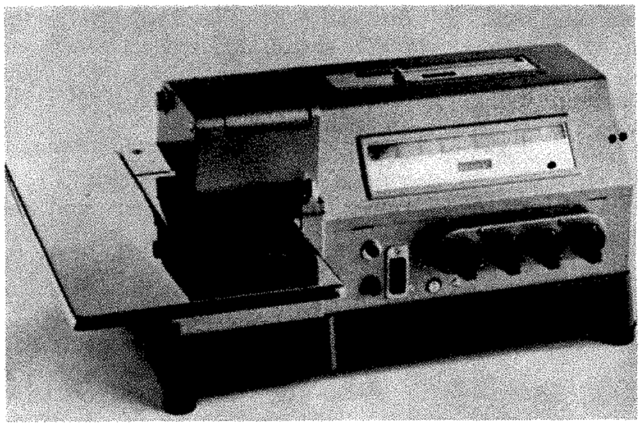
Elliott Business Machines Ltd, Astronaut House, Hounslow Road, Feltham, Middlesex. (Stand 36/55.)

Filing

A FILING cabinet made up from sturdy, snap together frame sections and panels houses the unique Scanex Circular filing units and can be assembled in about 15 minutes.

Lockable doors can be added or replaced by side panels as required. This cabinet contains five revolving tiers of folders and can hold 4,000 files. The floor area required is only 12 sq. ft including access space against about 37 sq. ft for four drawer filing cabinets.

ADM Business Systems, 64–66 King Street, London W6. (Stand 437/440.)



Roneo-Neopost 305 franking machine.

Postal Franking Machines

THE model 105 covers all values from 1*d* to 6*d* and is hand-operated. The 205 is an electric model for values from ½ to 99½*p*. The 305 is for heavy and varied mail. There are electric and manual versions fitted with an envelope sealing attachment which will take envelopes up to ⅜ in. thick and with all pence values from ½ to 99½*p* at a speed of 5,000 per hour. The 605 model is a 10,000 an hour franker for the bulk user. All pence values from ½ to 99½ and automatic feed copes with envelopes and wrappers up to 9 × 12 in.

Roneo-Neopost are also showing their range of folders, inserters and letter openers and sealers as well as signing, coding, numbering and dating machines.

Roneo-Neopost Ltd, Lion House, Red Lion Street, Richmond, Surrey. (Stand 110.)

Taxation Case

A full report of the case summarized in this column will be published, with Notes on the Judgment, in the 'Annotated Tax Cases'

Automobile Proprietary Ltd (Royal Automobile Club) *v.* Hotel and Catering Industry Training Board

In the Court of Appeal – July 26th, 1968

(Before THE MASTER OF THE ROLLS (Lord DENNING), Lord Justice WINN and Mr Justice BUCKLEY)

Training levy – Order specifying activities of industry or commerce – Members' clubs included – Whether this inclusion invalid – Industrial Training Act 1964, sections 1, 4 – Industrial Training (Hotel and Catering Board) Order 1966 (No. 1347), Schedule, paragraphs 1, 3.

The Royal Automobile Club, a members' club, supplied meals to its members, and the members paid for meals supplied to them or to their order. The Club was not engaged in industry or commerce. The Club's property was vested in Automobile Proprietary Ltd, of which all the members of the Club were members.

Section 1 (1) of the Industrial Training Act 1964, enables an order to be made to provide for the training of persons for employment in any activities of industry or commerce; for the specifying of those activities; and for the establishing of industrial training boards. Section 4 empowers the boards to make a levy on the employers in the industry for the purpose. The Industrial Training (Hotel and Catering Board) Order 1966 (No. 1347) defines the activities of the hotel and catering industry to include, not only the running of hotels and restaurants carried on for gain, but also that of members' clubs which provide meals for their members.

For the training board it was contended that the 1966 order had validly included members' clubs; and that the Royal Automobile Club was bound to pay the training levy.

The appellant company contended that by section 1 (1) of the Act an Order could be made only in relation to activities of industry or commerce; that the Order of 1966 was invalid to the extent to which it covered members' clubs; and that the Royal Automobile Club was not subject to the levy.

Held (reversing the judgment of Mr Justice Bridge): the order was invalid to the extent to which it included members' clubs; and that the Club was not subject to the levy.

Finance and Commerce

Redland

THIS year's report and accounts of Redland Holdings Ltd are of interest in presentation and in content – in the latter the interest is in what the report contains and what it does not. Mr A. F. F. Young, O.B.E., T.D., F.C.A., introduces the new style report by saying, 'The form in which the report and accounts are being presented to you this year is such an improvement on anything we have produced before, including the front cover which has been designed to emphasize the increasing importance – and cost – of transport in a group such as ours, that I feel sure it will commend itself to all shareholders. The extra cost is offset by the fact that the accounts are in a separate section which enables the remainder of the report to be used for promotion.'

Thus the report comes out rather like a colour supplement with a business section. To this column's unartistic eye the front cover has the appearance of a Redland truck bursting through a forest in a Force 10 gale, but it is impressive none the less.

The directors' report and the notes on the accounts, Mr Young says, 'give all the information required by the most recent Companies Act, including the range of emoluments of the directors of the parent board, although it is difficult to see what useful purpose the publication of these figures can serve'.

Breakdown of profits

Redland is in many sectors of the building materials and allied industries and Mr Young comments, 'It is apparent that the new Companies Act does not make it incumbent upon companies such as ours, engaged predominantly in the manufacture of materials and provision of services within a single industry, to publish the breakdown of profits arising from each of these activities, and in our opinion such disclosure would not be in the best interest of our shareholders.'

Instead, the chairman's statement provides two tables, one showing the actual profitability and the other the order in relation to capital employed in the United Kingdom and overseas. Table 'A' – profitability – runs (1) Roofing tiles, (2) Sand and gravel, (3) Bricks, (4) Pipes, (5) Road surfacing and contracting, (6) Granite and limestone, (7) Engineering, (8) Transport, (9) Concrete products, (10) Felts and dampcourses.

Table 'B' – capital employed – runs (1) Roofing tiles, (2) Pipes, (3) Road surfacing and contracting, (4) Engineering, (5) Sand and gravel, (6) Bricks, (7) Transport, (8) Granite and limestone, (9) Felts and dampcourses, (10) Concrete products.

This is fair information but it should surely be reinforced in group terms by a more informative ten-year record showing profits as a percentage return on turnover and as a return on capital employed. As it stands, the ten-year record is restricted to main profit, dividend and asset figures plus turnover broken down into UK operating subsidiaries, overseas operating subsidiaries, West Germany and Holland.

Easy reading

In the 16-page, glossy, 'promotion' part of the report, four pages are taken up by Mr Young's statement covering general subjects together with comment on each of the main branches of the organization. Much of the rest is given over to colour and black and white pictures, plus explanatory and promotional text.

The first page sets out the directors and officers of the company and the names of the subsidiaries against their products. The final page contains three graphs showing group profit, capital employed and group turnover over ten years. The accounts are on grey paper with black type for current figures and red for comparisons and for titles. The directors' report opens with trading results headed by turnover broken down into UK sales, exports from the UK and sales by overseas operating subsidiaries.

The profit and loss account in columnar form has the merit of showing the requisite notes on the facing page. Consolidated and parent balance sheets are given to a single narrative, with notes on the facing and immediately following pages. The layout is neat and makes for easy reading.

Cash strength

In the balance sheet the strong cash position will be noted. One of the tasks of the 'newly appointed management board', Mr Young says, 'is to subject every aspect of the group's activities to a searching analysis, with a view to reconstruction or disposal if the required return on capital employed cannot be achieved'. The process of redeploying assets, which began with the disposal of the Eastwoods-Froy company, is continuing and has resulted in the cash accumulation, part of which is being used for capital expenditure in more profitable directions and the remainder retained with acquisitions in mind.

On the latter point Mr Young refers to constant linking of the Redland name in the Press with take-over operations. At least twice, incidentally, the company has had to deny take-over intentions towards the London Brick Co. In 13 years Redland has scored 23 successful bids against three failures or withdrawals and possibly this record leads to Redland's name cropping up in stock-market rumours.

But this can be 'embarrassing and frustrating', comments Mr Young, who adds, 'In the prevailing sensitivity of the stock-market, the slightest rumour can lead to a steep rise in the price of a share overnight, thereby defeating the whole purpose of absolute secrecy which the Panel on Take-overs and Mergers so strongly and so rightly stressed.' That rather suggests that some, at least, of the market's rumours have been well on the mark.

REDLAND HOLDINGS LIMITED CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1968

		1968	1967
		£	£
Trading profit for the year		9,833,925	8,316,637
Other income	Note 2	401,384	197,480
		10,235,309	8,514,117
Specified expenditure and provisions	Note 3	3,781,021	3,737,441
Gross profit for the year before taxation		**6,454,288**	**4,776,676**
Taxation	Note 5	**3,123,907**	**2,278,509**
Group profit for the year after taxation		**3,330,381**	**2,498,167**
Expenses in connection with the redemption of debentures		815	855
		3,329,566	2,497,312
Provision for loss on investment in an associated company		5,500	—
		3,324,066	2,497,312
Profit attributable to minority interests, less taxation of £479,167 (*1967 £395,658*)		436,603	371,319
Group profit attributable to Redland Holdings Limited		**2,887,463**	**2,125,993**
Profits, less losses, retained in subsidiaries		183,426	41,372
		2,704,037	2,084,621
Dividends	Note 6	**2,350,437**	**2,037,760**
		353,600	46,861
Balance brought forward from previous year		**63,310**	**41,371**
Provision in previous year no longer required		—	28,400
		416,910	116,632
Transfer to general revenue reserve		**250,989**	**53,322**
Balance carried forward: Parent		165,921	63,310
Subsidiaries		461,420	551,935
Balance carried forward: Group		**£627,341**	**£615,245**

The Notes on page [adjoining] are to be read as part of the accounts

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REDLAND HOLDINGS LIMITED NOTES ON THE CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 MARCH 1968

1 Overseas subsidiaries The consolidated profit and loss account includes the profit and loss accounts of overseas subsidiaries for the year ended 31 December 1967. The directors consider that for fiscal reasons the financial year of the overseas subsidiaries should not coincide with that of the parent company.

2 Other income

	1968	1967
	£	£
Dividend from an associated company	28,655	24,500
Interest on quoted investments	13,736	11,596
Interest on deposits	247,404	80,111
Rents receivable, less outgoings	82,855	71,404
Sundries	28,734	9,869
	£401,384	**£197,480**

3 Specified expenditure and provisions

	1968	1967
Directors' remuneration including £750 fees (*1967 £750*)	152,291	143,297
Auditors' remuneration	27,956	26,377
Depreciation of fixed assets	2,404,433	2,387,009
Interest payable:		
Debentures	704,632	554,896
Long term loans	27,109	24,296
Loans repayable in less than 5 years	2,932	—
Hire of plant and machinery	291,896	186,423
Amounts set aside for contingencies	169,772	113,683
Exceptional charges arising from the cessation of part of the trade of a subsidiary	—	301,460
	£3,781,021	**£3,737,441**

4 Directors' remuneration

	1968	1967
(excluding pension contributions):		
The Chairman	£20,295	£20,258
Other directors		
£	No.	No.
1 to 2,500	2	2
2,501 to 5,000	–	–
5,001 to 7,500	1	3
7,501 to 10,000	4	2
10,001 to 12,500	2	1
12,501 to 15,000	1	–
15,001 to 17,500	–	–
17,501 to 20,000	2	3

5 Taxation Provision has been made for the estimated liability for United Kingdom taxation assessable by reference to the profits earned to 31 March 1968.

	1968	1967
	£	£
United Kingdom: Corporation Tax at 42½% (*1967 40%*) after double taxation relief £97,259 (*1967 £122,552*)	1,982,813	1,380,080
Taxation equalisation	56,782	4,094
Transitional relief	15,869	13,802
Overseas: Taxes on profits earned to 31 December 1967	1,092,609	874,790
Taxation equalisation	7,572	33,347
	£3,123,907	**£2,278,509**

(1) The depreciation charge includes an element applicable to the revaluation of properties in prior years for which no corresponding taxation relief arises.

(2) No provision has been made for the taxation liability which would arise in the event of distributions by overseas subsidiaries of their retained profits.

6 Dividends

	1968	1967
6½% Cumulative preference shares	36,627	36.627
Ordinary shares interim 8½% on £12,507,085 (*1967 5%*)	1,063,102	625,354
Ordinary shares proposed final 10% on £12,507,085 (*1967 11%*)	1,250,708	1,375,779
	£2,350,437	**£2,037,760**

REDLAND HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET OF REDLAND HOLDINGS LIMITED (GROUP) BALANCE SHEET OF REDLAND HOLDINGS LIMITED (PARENT) AT 31 MARCH 1968

		Group		Parent	
		1968	*1967*	1968	*1967*
Net assets		£	*£*	£	*£*
Current assets					
Stocks and work in progress	*Note 8*	4,108,351	*4,688,688*	—	—
Sundry debtors and prepayments less provisions		9,279,332	*8,783,079*	128,443	*236,238*
Quoted investments at market value		23,886	—	—	—
Quoted investments at cost less amounts written off (*Market value £245,267*)		—	*276,685*	—	—
Short term deposits		3,825,000	*2,000,000*	3,825,000	*2,000,000*
Bank balances and cash		1,846,425	*1,625,817*	286,156	*41,767*
		19,082,994	*17,374,269*	4,221,599	*2,278,005*
Current liabilities and provisions					
Sundry creditors and accrued charges		4,184,549	*4,462,269*	153,657	*76,694*
Proposed final dividend – gross		1,250,708	*1,375,779*	1,250,708	*1,375,779*
Taxation		3,005,577	*2,079,926*	39,911	*1,222*
Amount set aside for contingencies	*Note 9*	1,117,553	*607,801*	—	—
Exchange equalisation account	*Note 7*	115,520	—	—	—
		9,673,907	*8,525,775*	1,444,276	*1,451,251*
Net current assets		**9,409,087**	***8,848,494***	**2,777,323**	***826,754***
Fixed assets:					
Per schedule on Page [422]		23,714,702	*23,543,711*	—	—
Interests in subsidiaries	*Note 10*	—	—	33,922,462	*35,545,716*
Interests in associated companies (Unquoted):					
Parent		—	*103,433*	—	*103,433*
Subsidiaries (Directors' valuation £650,000)		512,379	*128,944*	—	—
		£33,636,168	***£32,624,582***	**£36,699,785**	***£36,475,903***
Capital employed					
Issued share capital	*Note 11*	13,070,575	*13,070,575*	13,070,575	*13,070,575*
Share premium and reserves, less goodwill	*Page [422]*	7,251,620	*6,599,375*	13,042,344	*12,691,271*
Share capital and reserves		**20,322,195**	***19,669,950***	**26,112,919**	***25,761,846***
Taxation equalisation account		**504,031**	***434,786***	—	—
Debenture stocks (Secured)	*Note 12*	**10,586,866**	***10,714,057***	**10,586,866**	***10,714,057***
Long term bank loans (Secured)		**396,490**	***273,163***	—	—
Minority interests in subsidiaries		**1,826,586**	***1,532,626***	—	—
		£33,636,168	***£32,624,582***	**£36,699,785**	***£36,475,903***

Alex F F Young, Director
A P White, Director

The Notes and Schedules on Pages [421 to 422] are to be read as part of the Accounts

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REDLAND HOLDINGS LIMITED

NOTES ON THE BALANCE SHEETS AT 31 MARCH 1968

7 Accounts of overseas subsidiaries

The consolidated balance sheet includes the balance sheets of overseas subsidiaries at 31 December 1967. The Directors consider that for fiscal reasons the financial year of the overseas subsidiaries should not coincide with that of the parent company. The figures relating to these overseas subsidiaries have been converted into sterling on the following bases:

(a) Fixed assets and long term liabilities
- (1) Balances brought forward from consolidated balance sheet at 31 March 1967, at the sterling value adopted at that date
- (2) Subsequent additions at the rates of exchange ruling at 31 December 1967

(b) Current assets and liabilities at the rates of exchange ruling at 31 December 1967

The surplus on conversion has been transferred to an exchange equalisation account and is shown separately on the balance sheet as a provision against possible exchange losses in the future. Sales and profits of overseas subsidiaries for the year ended 31 December 1967 have been converted into sterling at the post-devaluation exchange rates ruling at 31 December 1967. If conversion had been made at the exchange rate ruling at 31 December 1966, sales and profits, before taxation, would have been lower by approximately £1,334,000 and £269,000 respectively.

8 Stocks and work in progress

Valued at the lower of cost and net realisable value.

9 Amount set aside for contingencies

This has been set aside in the accounts to cover possible liabilities under guarantees.

10 Interests in subsidiaries

	1968	*1967*	1968	*1967*
	£	*£*	£	*£*
Shares at cost	29,907,586	*29,907,586*		
Amount owing to parent including dividends receivable	13,789,684	*12,354,137*		
Amount owing from parent less dividends receivable	9,774,808	*6,716,007*		
	£33,922,462	***£35,545,716***		

11 Share capital

	Authorised	*Authorised*	Issued and fully paid	*Issued and fully paid*
6½% Cumulative preference stock	563,490	*563,490*	563,490	*563,490*
Ordinary shares of 5s each	12,666,510	*12,666,510*	12,507,085	*12,507,085*
	£13,230,000	***£13,230,000***	**£13,070,575**	***£13,070,575***
Number of shareholders:				
Preference stock	1,043	*623*		
Ordinary shares	18,933	*19,582*		

12 Debenture stocks (Secured)

	£	*£*
5¼% Redeemable debenture stock, 1970/75	1,191,815	*1,265,956*
6% Redeemable debenture stock, 1980/85	500,000	*500,000*
6% Redeemable debenture stock, 1988/93	2,895,051	*2,948,101*
7¼% Redeemable debenture stock, 1990/95	6,000,000	*6,000,000*
	£10,586,866	***£10,714,057***

13 Capital expenditure and contingent liabilities

At 31 March 1968 the Board of Directors of Redland Holdings Limited had authorised future capital expenditure amounting to approximately £4,850,000 (*1967 £3,187,000*) against which contracts had been placed for approximately £557,000 (*1967 £345,000*) for which no provision has been made in these accounts. In addition, the capital expenditure programme for overseas subsidiaries for the calendar year 1968 totalled approximately £810,000 (*1967 £548,000*) against which contracts had been placed at 31 December 1967 for approximately £190,000 (*1966 £47,000*) for which no provision had been made in their accounts.

At 31 March 1968 there were contingent liabilities in the United Kingdom amounting to £52,963 in respect of guarantees on trading contracts, and at 31 December 1967 in an overseas subsidiary, there was a contingent liability of £61,863 on a joint and several guarantee given in respect of an associated company.

REDLAND HOLDINGS LIMITED

NOTES ON THE BALANCE SHEETS AT 31 MARCH 1968

Fixed assets - group	Freehold land and buildings	Leasehold land & buildings Long leases (50 years and more)	Leasehold land & buildings Short leases (under 50 years)	Plant and machinery	Fixtures and fittings	Motor vehicles	Patents, rights and trade marks	Total
	£	£	£	£	£	£	£	£
Cost and valuations at 1 April 1967	18,484,680	126,299	587,184	13,866,997	439,418	2,502,315	126,336	36,133,229
Additions during year at cost	1,391,061	1,600	41,522	1,656,149	35,332	544,139	7,260	3,677,063
Revaluation adjustment	83,092	—	—	—	—	—	—	83,092
	19,958,833	127,899	628,706	15,523,146	474,750	3,046,454	133,596	39,893,384
Less:								
Investment grants receivable	4,084	236	—	244,359	—	1,611	—	250,290
Cost of disposals during year	826,238	32,143	35,941	384,013	32,136	562,650	155	1,873,276
Cost and valuations at 31 March 1968	19,128,511	95,520	592,765	14,894,774	442,614	2,482,193	133,441	37,769,818
Comprising:								
Cost	8,346,628	95,420	459,700	14,757,482	441,423	2,482,193	133,441	26,716,287
Written down value 1948	376,364	—	365	137,292	1,191	—	—	515,212
Valuation 1963	8,630,034	100	96,200	—	—	—	—	8,726,334
Valuation 1965	789,335	—	—	—	—	—	—	789,335
Valuation 1966	221,150	—	36,500	—	—	—	—	257,650
Valuation 1967	575,000	—	—	—	—	—	—	575,000
Valuation 1968 by professional valuer, on basis of minimum realisable value	190,000	—	—	—	—	—	—	190,000
	19,128,511	95,520	592,765	14,894,774	442,614	2,482,193	133,441	37,769,818
Less aggregate depreciation	3,592,759	22,043	238,695	9,023,291	315,561	1,584,615	77,475	14,854,439
Net book value	**15,535,752**	**73,477**	**354,070**	**5,871,483**	**127,053**	**897,578**	**55,966**	**22,915,379**
Loose plant and tools at valuation	—	—	—	799,323	—	—	—	799,323
Fixed assets at 31 March 1968	**£15,535,752**	**£73,477**	**£354,070**	**£6,670,806**	**£127,053**	**£897,578**	**£55,966**	**£23,714,702**
Net book value at 31 March 1967	***15,458,648***	***101,740***	***380,702***	***5,685,317***	***614,431***	***894,664***	***65,931***	***22,751,433***
Loose plant and tools at valuation	—	—	—	*792,278*	—	—	—	*792,278*
Fixed assets at 31 March 1967	*£15,458,648*	*£101,740*	*£380,702*	*£6,477,595*	*£164,431*	*£894,664*	*£65,931*	*£23,543,711*

REDLAND HOLDINGS LIMITED

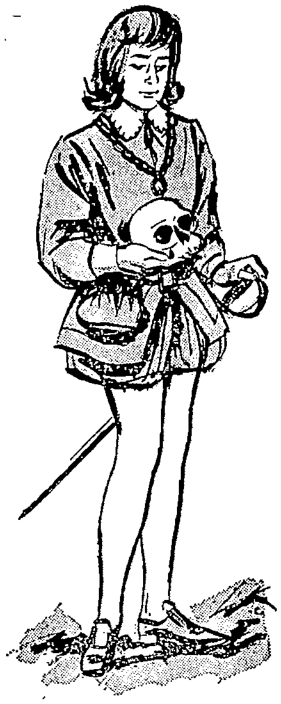
NOTES ON THE BALANCE SHEETS AT 31 MARCH 1968

Reserves and goodwill		Group	Parent
		£	£
(a) General revenue	at 31 March 1967	2,500,000	1,748,859
	Transfer from profit and loss accounts	500,000	250,989
	Balance at 31 March 1968	**£3,000,000**	**£1,999,848**
(b) Goodwill (Group) and general capital reserve (Parent)	at 31 March 1967	7,255,155	139,817
	Expenses of proposed acquisitions, subsequently abandoned	18,136	18,136
	Adjustments following sale of shares in former subsidiary	68,770	—
	Tax on capital gains and amount written off in connection with sale of assets in subsidiary which has now ceased trading	44,608	—
	Purchase of goodwill by a subsidiary	3,473	—
	Discount on redemption of debenture stocks	15,609	15,609
	Increase in book value on the basis of a professional valuation of certain freehold land and buildings, including depreciation no longer required of £34,007	117,099	—
	Profit on sale of fixed assets, less tax thereon	114,725	—
	Benefit of investment allowance in previous year	10,700	—
	Works not in operation – adjustment and tax relief in connection with amounts written off in previous year	17,003	—
	Balance at 31 March 1968	**£7,115,006**	**£137,298**
(c) Profit and loss accounts	at 31 March 1967	615,245	63,310
	Profits less losses retained	537,026	353,600
		1,152,271	416,910
	Less: Amounts set aside for contingencies	24,930	—
	Transfers to general revenue reserve	500,000	250,989
	Balance at 31 March 1968	**£627,341**	**£165,921**
(d) Share premium account	Balance at 31 March 1967 and 31 March 1968	**£10,739,285**	**£10,739,285**
	Total reserves at 31 March 1968	**£7,251,620**	**£13,042,344**

Report of the auditors to the members of Redland Holdings Limited

In our opinion, the accounts set out on pages [420 to 422] comply with the Companies Acts, 1948 and 1967, and together give, s far as concerns members of the Holding Company, a true and fair view of the state of affairs at 31 March 1968, and of the profit for the year ended on that date, so far as is practicable having regard to the fact that the accounts of two of the subsidiaries are made up to 31 December 1967. We have not audited the accounts of certain subsidiaries which have been audited by other firms.

Binder, Hamlyn & Co.
Chartered Accountants
8 St Bride Street, London EC4
19 August 1968



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CITY NOTES

INVESTORS have become so used to all things working together for good in the stock-markets that they have fair reason to wonder just where the bad is going to come from – or if, indeed, it is going to come at all. At the beginning of this year a popular forecast was that the equity rise would continue so long as the trade and balance of payments positions were poor enough to reinforce fears of inflation but that the boom would break when conditions began to come right and the inflationary fear lessened.

It was also held that, although industrial profits were clearly going to rise, even a stock-market reckoning in earnings rather than dividend terms would falter once earnings growth began to be discounted well into 1969. Nothing of the kind has happened.

Inflationary fear, earnings prospects, distrust of virtually anything smacking of fixed interest and old style capital safety, the weight of institutional money and the extent to which institutions are now tapping wider investment resources, together with a staggering run of take-overs and mergers have combined to put out of joint what appeared to be reasonable stock-market assessments.

Those bold brokers who were prepared to go into bearish print even before *The Financial Times* share index reached 500, found themselves almost 25 index points the wrong way round at the end of last week. They may well be proved correct in time but the investment laurels go to those who are right at the right time and, in such an inexact science, correct timing is very often a matter more of luck than judgement.

* * * *

ONLY a few years ago the unit trust industry looked like becoming an amateur's playground. There is little room for amateurism in the industry now. Before the end of this year there will be even more big insurance names in the unit trust or the unit-linked assurance business to put alongside Prudential, Commercial Union, General Accident and the rest.

The National Westminster banking merger has effectively brought into the unit trust fold a bank – National Provincial – which at one time was one of the most direct in insisting that unit trusts were not bank business. Unit trusts over the counter at Coutts & Co is hardly to be put in the realm of impulse buying but no one can argue about the prestige of the point.

* * * *

IF they had not made such a terrible mess of the matter in the first place, one might almost feel a twinge of pity for the roasting that the banks have been given over their inept announcement of Saturday closing. The unkindest cut of all came with the announcement of the Securicor company's idea for a combined cash collecting and cheque cashing exercise on Saturdays. 'Armoured banking' would be an interesting exercise, no doubt, but until the banks belatedly get round to saying what compensations they intend to offer for Saturday closing – always assuming that the newly-found strength of trade unionism in the banks allows compensation to be offered – taking to the streets can wait.

* * * *

BANK rate at 7 per cent – a rate which under previous administrations used to be associated with the 'stops' of Stop-Go – has been accompanied by the strictest of warnings from the Bank of England and the Government that, although credit may be half a point cheaper, its volume will not be in the slightest degree greater. The basic view is that the Budget of last March is only now making any economic impact and that the present pitch of credit pressure must be maintained.

Any easement of pressure this side of the next Budget must be considered unlikely. That is particularly so all the time there is concern at the current level of imports which turns to a considerable degree on the level of industrial restocking. At present the immediate Whitehall economic view does not see import restrictions as either necessary or desirable but that, in itself, is a reason why the degree of pressure on credit and, thereby, on internal consumer demand, must be maintained at its present level.

RATES AND PRICES

Closing prices, Tuesday, September 24th, 1968

Tax Reserve Certificates: (28.8.68) Companies 4⅜%; 3% surrendered for cash; Personal 4%

Bank Rate

Jan. 26, 1967	6½%	Nov. 9, 1967	6½%
Mar. 16, 1967	6%	Nov. 18, 1967	8%
May 4, 1967	5½%	Mar. 21, 1968	7½%
Oct. 19, 1967	6%	Sept. 19, 1968 ..	7%

Treasury Bills

July 19 ..	£7	2*s*	5·25*d*%	Aug. 23 ..	£6	19*s*	0·42*d*%
July 26 ..	£7	1*s*	2·22*d*%	Aug. 30 ..	£6	18*s*	10·73*d*%
Aug. 2 ..	£7	0*s*	4·48*d*%	Sept. 6 ..	£6	18*s*	7·99*d*%
Aug. 9 ..	£6	18*s*	6·27*d*%	Sept. 13 ..	£6	17*s*	243·*d*%
Aug. 16 ..	£6	18*s*	1·79*d*%	Sept. 20 ..	£6	12*s*	1·75*d*%

Money Rates

Day to day ..	5⅜–6⅝%	*Bank Bills*	
7 days	5¼–6⅝%	2 months ..	6 15/16–7%
Fine Trade Bills		3 months ..	6 15/16–7%
3 months ..	8–8½%	4 months ..	6 15/16–7%
4 months ..	8–8¾%	6 months ..	6 15/16–7%
6 months ..	8–9%		

Foreign Exchanges

New York	2·38 15/16	Frankfurt ..	9·49½
Montreal	2·56 5/16	Milan	1487⅛
Amsterdam ..	8·68 5/16	Oslo	17·06¾
Brussels	119·92½	Paris	11·88⅛
Copenhagen ..	17·92½	Zürich	10·26 27/32

Gilt-edged

Consols 4% ..	53¼	Funding 6% 1993	81⅝
Consols 2½% ..	33¾	Savings 3% 60–70 ..	92 1/16
Conversion 3½% ..	46⅝	Savings 3% 65–75 ..	76¼
Conversion 5% 1971	93 11/16	Treasury 6½% 1976	96⅞
Conversion 5¼% 1974	91½	Treasury 3½% 77–80	73¼
Conversion 6% 1972	95 19/32	Treasury 3½% 79–81	69⅝
Funding 3½% 99–04	52¾	Treasury 5% 86–89	72¾
Funding 4% 60–90	96½	Treasury 5½% 08–12	73⅝
Funding 5¼% 78–80	83⅝	Treasury 2½% ..	33⅛
Funding 5½% 82–84	82⅛	Victory 4%	98 5/16
Funding 5¾% 87–91	79½	War Loan 3½% ..	47½

LETTERS TO THE EDITOR

Integration of the Profession

From the President of The Institute of Chartered Accountants in England and Wales

SIR, – Last week's issue of *The Accountant* contained a letter from Mr S. C. Hand, F.C.A., in which he set out the grounds for his opposition to the proposals for the development of the accountancy profession which were issued to members in July. I will do my best to reply to the points he makes.

There are constitutional and regional differences over which the accountancy bodies have no control and can exert no influence. The constitutional differences are self evident and need little elaboration – they stem basically from the fact that the constitution of the Irish Institute is subject to two Governments. There are regional differences between all three territories. For example, Scottish law differs from the law in England and Wales; the educational systems are different in England and Wales, in Scotland and in Ireland and so also are the arrangements for grant aid for education and for practical training to the extent that separate educational authorities and Industrial Training Boards are established for this purpose. There are, nevertheless, good reasons, which are set out in my covering letter to the scheme, for establishing uniform standards of education, training and professional discipline within the respective territories for all accountants whatever their occupation may be and, through the machinery of the proposed joint committees, for establishing and maintaining comparable standards as between the three territorial areas.

I cannot accept that, with the close collaboration between the three enlarged Institutes which the scheme envisages, there would be any material difference in the standards of the members of these Institutes.

These arrangements for closer collaboration would also mean that the accountancy profession would, for all practical purposes, speak with a united voice. I accept that, at times, there may be differences of opinion which prove irreconcilable but these should be the exception rather than the rule. It will be the task of the joint committees to overcome difficulties. In this regard the co-operation and willingness to understand each other's problems shown by the representatives of the six bodies when formulating the present proposals are perhaps significant and a happy augury for the future.

Criteria for admission as chartered accountants

I accept Mr Hand's criticism that there would be some measure of dilution in the short-term, but the integration proposals must be considered in the light of the long-term benefits which will accrue to the accountancy profession. I am not convinced of the validity of his argument that because some *students* take a long time to qualify or because the wastage rate in *students* is high, the standard of the *qualified membership* is necessarily low – indeed the opposite conclusion may well be drawn.

Mr Hand has asked for evidence to refute his contention that the quality of many of the integrating members would not enhance the standing of the Institute. He has asked for information about the number of companies with shares quoted on the Stock Exchange which have auditors whose partners are members of one of the chartered bodies as compared with the number which have auditors whose partners are certified accountants. An exercise carried out some years ago disclosed that of companies quoted on the London Stock Exchange over 98 per cent were audited by chartered accountants. There are, however, a large number of limited companies whose shares are not quoted on the Stock Exchange and with regard to these companies no information is readily available.

Executive positions

Mr Hand also asked for information about the number of quoted companies which have members of the chartered bodies as directors or holding the position of secretary and how many certified or cost accountants hold these positions. To carry out such an investigation would, I am afraid, be impracticable. An attempt was made in 1963 but it was found that many members do not disclose their designatory letters when they are listed as directors or secretaries. It was found that it would be necessary to check the name of every director against the *List of Members*. The time involved in checking each name against certainly five and possibly six *Lists of Members* would be very costly for an exercise of doubtful practical value.

Mr Hand may be right in his assertion that frequently chartered accountants hold senior executive positions in industry whereas certified and cost accountants tend to hold subordinate positions. I can only emphasize what I said in reply to Mr Tanfield that to quote the achievements of the past is no valid argument against the scheme. The past is past and the comparison is between the future envisaged by the scheme and the future without the scheme. The changes which are taking place in the scope and emphasis of the work of professional accountants are tremendous. It is in the light of these changes that the scheme must be judged.

Any merger scheme in a profession inevitably involves some measure of dilution. But this would be a temporary phase because in the future all new entrants would be trained and examined to higher standards.

I accept Mr Hand's belief that there is little confusion in the mind of the public *who deal with business affairs*. Large firms, whatever their constitution may be, are well able to distinguish between the respective merits of the different qualifications which now exist. However, for the general public, the term 'chartered accountant' has become largely synonymous with 'accountant'. The scheme accepts the fact that members of the general public are not in a position to assess the respective merits of accountants who have been trained in different ways and it accordingly places firmly upon the Institute the onus of enforcing rules which, on the one hand, permit a member to offer services for which he has been trained but, on the other hand, prohibit him from providing other services for which he has not obtained the necessary training and experience. This is fundamental to the whole scheme and has resulted in the concept of 'reserved functions' and two types of practising certificates. For example, the licentiate would be trained to become a competent technician; he must therefore be permitted to provide, if he so wishes, accountancy services of a technical nature. He must be able to exercise his craft in public practice. However, neither the licentiate accountant nor the chartered accountant who has spent his time exclusively in industry, commerce or the public service will be permitted to give a professional opinion when offering his services to the public at large.

Mr Hand also has a number of subsidiary criticisms of the proposals, These cover:

(*a*) education and training for chartered accountants;
(*b*) power to inquire into the adequacy of practical training; and
(*c*) legislative support.

Education and training for chartered accountants

The need to make proper provision for the further education of candidates for our profession is a vital factor in attracting recruits. Quite apart from the sound basic reasons set out in the scheme for courses of full-time study, it is a fact of life that one of the first questions asked by most potential recruits, and certainly by those with the higher intellectual qualities whom we must attract into the profession, concerns the arrangements for further education. Correspondence courses allied to practical training have their place and will continue to be a valuable adjunct to other arrangements, but they do not appeal to the youth of today.

As regards the suggestion that in time it may be desirable only to accept graduates for the 'chartered' qualification – this is an expression of view – I believe a realistic view – but one which is not fundamental to the present scheme and should not be allowed to obscure the main issues now before the membership. I do not, however, accept that such a development would necessarily mean the abandonment of a means of progression for licentiates. Indeed, an important feature of the scheme is the provision of the 'ladder' leading to the higher qualification for which Mr Hand asks.

Provision has been made, as Mr Hand suggests, for candidates to serve part of their service under a training contract in industry and part in practice. It would not, however, be practical to make this arrangement compulsory for all. Those who are able to take advantage of it and can make the appropriate arrangements may, indeed, have more to offer in later years than those with more limited experience.

If Mr Hand's further suggestion materializes so that grant aid is forthcoming for a wide variety of educational programmes, he may be sure that the Institute will take advantage of it. Such grant aid, for example, is already available from some Industrial Training Boards but because our students are at present trained only in practising offices they can benefit from it only after qualification.

Power to inquire into the adequacy of practical training

The Council has accepted the view expressed by Mr Hand that some training under articles is not as good as it should be and this is recognized in paragraph 26 of Appendix 'C' of the scheme.

As regards the responsibility which would be placed upon the Council to ensure an adequate supply of recruits to all three streams – this would have to be faced by the Council when it became clear what the problem was. It would be fruitless, at this stage, to attempt to assess and make contingency plans for a wide variety of eventualities which may never materialize. Some members in industry believe that industrial concerns would not co-operate to the extent that we would wish and that, accordingly, there will be a dearth of vacancies for training in industry. Some practising members fear that all recruits to the profession will opt for industrial training. It is necessary to see what pattern emerges and then to decide what measures should be taken to maintain a proper balance so that the economy of the country does not suffer as a result of an imbalance. My belief is that the pattern will not change materially from that which now exists.

As I said in my reply to Mr Tanfield, it must not be thought that any large proportion of those in industry and commerce who, if the proposals are accepted, would then be able to call themselves chartered accountants, would become eligible to train students. Approved service would be obtainable only in an industrial or commercial undertaking in which the Council is satisfied the student could obtain the necessary range of experience (page 26, paragraph 13 of the scheme). Moreover, not only would the company be a party to the training contract but so also would a member of the Institute 'with at least five years' membership as a chartered accountant who is holding a sufficiently senior position to be able to honour the responsibility of ensuring that the training programme is being carried out and of undertaking the professional upbringing of the student' (page 27, paragraph 16 (*b*) of the scheme).

The scheme goes on to say 'The principles underlying the requirements [for industry, commerce and the public service] are relevant to determine the suitability of training provided in the offices of practising members' (page 29, paragraph 26 of the scheme). In this context the following figures of admissions to membership of the respective bodies during the last four years are significant:

	1964	*1965*	*1966*	*1967*
English Institute	1,788	1,893	2,135	1,720
ACCA	317	394	398	449
ICWA	693	389	242	396
IMTA	242	218	275	287

Legislative support

I agree that the references in the scheme to legislative support are at present no more than an expression of intent and hope – and an indication of the lines upon which an approach should be made. As members are aware, representations on these lines were made to the Board of Trade at an early stage in the discussions between the representatives of the six participating bodies. At that time, though we did not know of it, the reference of all professional practices to the Monopolies Commission was under consideration. When it became public knowledge that the professions were to be referred to the Monopolies Commission, the Board of Trade advised us that they would be unable to take the matter further until Ministers had received and considered the Report of the Monopolies Commission. In these circumstances there is nothing that I can add to the statements in the scheme.

Yours faithfully,
S. DIXON, M.A., F.C.A.,
President,
THE INSTITUTE OF CHARTERED ACCOUNTANTS
IN ENGLAND AND WALES.
London EC1.

SIR, – I should like to present the following views arising from the proposals for the future development of the profession in Britain.

First, as a member of more than one of the bodies concerned, I trust that I do not suffer from an 'insularity' which unfortunately appears more frequently than one would hope in discussion on integration. I suggest special attention should be paid to senior members of the profession who hold multiple memberships.

Secondly, some twenty years ago I advocated the joint training of accountants to the intermediate stage, but my views in those days had the usual fate of opinions of junior members of the profession. I mention this only in the hope that the following suggestion will not be pushed aside as readily, especially as the chartered bodies having so long insisted on 'training without industry' have now executed a *volte face* on finding themselves in the situation of Canute, whereas they could have yielded to the inevitable with the dignity of Mahomet had they acted in time.

My concern is with the terms for the new 'training contract'. I myself did not serve articles, but having studied whilst engaged in local government – where the student from the start had very close contact with his seniors and with the very top men in the profession who attended with the students many of their meetings – I have great sympathy with a degree of 'formality' about the training.

However, the idea that three months' probation is enough to make a decision on is ludicrous. The necessity to commit oneself at an early stage to a firm contract can only mean that a number of potential first-class recruits is deterred from the profession. It is no answer that this happens wherever 'articles' are served. There is no reason why our profession should retain unnecessary bad features.

Similarly, the commitment to articles (or 'training contract'), means that some misfits will struggle on and qualify, but will not be the type with the enthusiasm or ability to add lustre to the profession. Once committed to a contract this is unavoidable, as only a minority will admit defeat by arranging for abandonment of articles, which they feel to be a breach of faith.

I suggest, therefore, that the first examination of the new series should be taken before *any* contract is entered into (in the same way that registration as an Institute of Municipal Treasurers and Accountants' student takes place *after* passing the intermediate). This will give adequate time for the intending trainee to decide if he wished to continue in the profession. If those without the keenness or flair drop out, this is only to the benefit of the profession and probably to the student, too, who can find a better niche for himself. The opportunity to give the work a proper trial should attract a number of potential recruits who would find the preliminary training useful, even for general work in commerce and industry, and a number of these (those, note, who after a lengthy trial still find the profession attractive), will enter formal contracts.

Thus at both ends, the gains and the losses, the profession will improve the standard of its intake.

I hope all accountants who feel as I do will make their opinions known to their respective Councils and that this suggestion will receive proper consideration by the latter.

Yours sincerely,
E. R. KERMODE, F.C.A., A.I.M.T.A.
Blantyre, Malawi.

Congratulations to Mr S. C. Hand for his letter in the issue of September 21st. Whilst the scheme may have some advantages in the long term, the fact remains that whilst there are many very able cost and works accountants, in general they are of a level of competence, experience and position below that of chartered accountants; municipal treasurers have no practical connection at all with either chartered or cost and works accountants.

It would be a most ludicrous situation if a person who had not even prepared a trial balance, let alone a set of accounts, became a chartered accountant. No, if the scheme is accepted, only those fitted by position and experience should be allowed to become chartered accountants and these requirements must be set at a very high level.

The most important factor of this proposal is its disastrous effect upon the practising side of the profession. I have read that 70 per cent of chartered accountants enter industry or commerce soon after qualification; no doubt this 70 per cent would become articled in industry if the integration were to take place. The effects of this are obvious but are sufficiently important for the main ones to be listed:

(1) The smaller firms would have no articled clerks, who would be attracted to the large firms for the better experience and high salaries which the profession would be obliged to pay to attract new entrants away from industry.
(2) Higher fees to clients.
(3) A significant lowering in competence and through-put due to staff shortages.

The effect of point (3) on the general public and the Inland Revenue does not bear contemplation, and it could possibly lead to a breakdown of the practising side of the profession.

I should also like to congratulate Mr E. Renshaw on his very sound letter in the same issue which I find very constructive.

Yours faithfully,
I. A. WINDOW, A.C.A., A.C.W.A.
Bath.

The Move to Stop *Chartac*

SIR, – I imagine that there will be many members of the Institute who now share my dilemma.

I disagree strongly with Mr Couldery. Nevertheless, I shall vote against Mr Nicholson and the requisitionists on October 3rd, because I regard their action in requisitioning the Special Meeting as thoroughly objectionable and an abuse of the Institute's constitution.

I voted against Mr Couldery on May 22nd. On the material then available, I thought the Council had the better case and nothing that Mr Couldery and his supporters are reported as having said at either meeting has served to change my mind on this. Three-quarters of the Institute membership did not care enough to vote one way or another and, in the event, Mr Couldery scraped home by the narrowest of margins.

For Mr Nicholson now to proceed by way of requisition to try to reverse that decision is to use the constitution in a way that it was never intended to be used. There is no end to this. If Mr Nicholson gets the verdict on October 3rd, what is there to prevent Mr Couldery having another go? He, too, no doubt, would not lack requisitionists in support.

The result on May 22nd was the verdict of that 27 per cent of the membership who were interested enough at that time to express a view and I cannot accept that the 73 per cent who voluntarily disfranchized themselves then are entitled to be heard now. The time, if any, to defeat Mr Couldery was in May – not October.

Too often have we seen the democratic machine falter through apathy. There is a lesson in this for all of us and the remedy lies in our own hands.

Yours faithfully,

London EC2. M. COOPER, F.C.A.

SIR, – Mr F. A. J. Couldery infers that I signed this requisition because I was prevailed upon by my employers, which firm has two partners who are members of the Council.

In fact, I signed this requisition while attending the Oxford Summer Course. Nobody connected with my employers communicated with me in any way about whether or not I should sign the requisition.

Yours faithfully,

Carshalton Beeches, M. P. STOCKLEY, F.C.A.
Surrey.

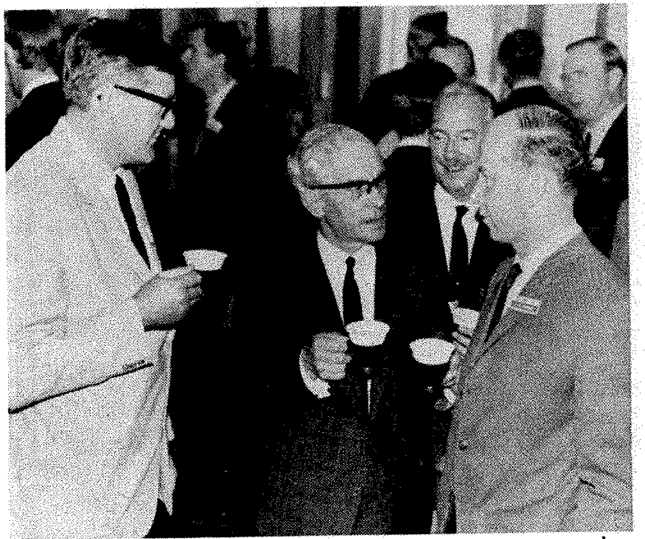
Chartered Accountants' Cambridge Summer Course

FOR the second of its summer courses, The Institute of Chartered Accountants in England and Wales again chose Churchill College, Cambridge, first visited last year. Last week 180 or so members foregathered, chaired by the President, Mr Stanley Dixon, M.A., F.C.A., and joined by three delegates from the Czechoslovak Ministry of Finance who, to the delight of all, were able to implement arrangements to attend made last year. The Institute summer courses have for more than 20 years provided a meeting place for chartered accountants of all views and from all positions, and the discussion groups have rarely been at a loss for animated subjects, not all of which had the remotest connection with accountancy. It may even be a debating point whether the success of a course is measured by the popularity of the papers presented or the lack of sleep achieved by the average member. This year there was certainly no lack of debating points, starting for many with the College itself as to whether the stark novelty of the Second Elizabethan concrete and bricks was outweighed by the greater presence of comfort than is to be found in many of the older colleges.

In opening the course, the President invited members to express their views about anything and to be 'as rude as you like'. The President's visits to discussion groups were not unnaturally largely occupied by questions on the scheme of integration for which, in the writer's experience, genuine interest left neither time nor place for rudeness.

The three papers given on the course were somewhat odd bedfellows, being 'Estate duty planning', by Mr B. W. Sutherland, F.C.A., who is in practice on his own; 'Long range planning and its significance for the accountant', by Mr B. F. Emmerson, F.C.A., a partner in practice solely engaged in management services; and 'Portfolio investments – aids to decision taking', by Mr J. Rashleigh, F.C.A., a chartered accountant, who is senior partner in a firm of stockbrokers. Whilst stimulating and excellent in themselves, the papers as subject choices may have fallen rather too far between the different interests of practising and industrial accountants.

The first paper the course got down to was that by Mr Sutherland who had prepared a comprehensive and up-to-date review of estate duty law and what one can do and not do about it – much needed after the 1968 Finance Act changes. Whilst dealing with many points of detail, the author stressed the need in planning for 'simplicity, certainty and flexibility' which is particularly appropriate to settlements. The paper included a very useful chart and schedule of estate duty rates and the effect of marginal



Mr Stanley Dixon, M.A., F.C.A., President of the Institute (*centre*), in discussion with Mr P. A. Smith, F.C.A. (*left*), and Mr F. R. Loader, F.C.A., J.Dip.M.A., both group leaders, together with Mr M. C. Ashill, F.C.A., Under-Secretary.

rates, which showed so clearly the impact on an estate of moving up to a higher duty bracket – or, as one hopes after reading the paper, of getting affluent estates down to a lower rate.

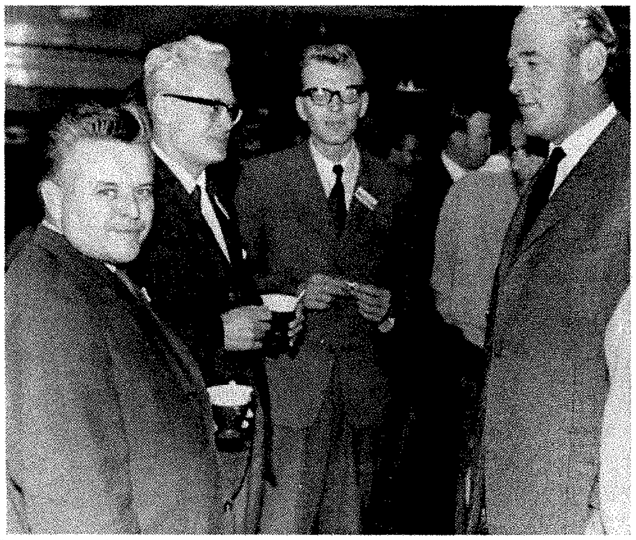
Long range planning

As Mr Sutherland's views led one increasingly to consider the awful and iniquitous prospects facing large (and indeed not-so-large) estates and thus to ponder on the merits of advising the owners of such estates to plan to live on capital, or at least to spend some of it, it was perhaps appropriate that the course should next hear Mr Emmerson's paper on 'Long range planning' (LRP) – a new subject for a summer course and one which probably initially was looked at with some scepticism and curiosity as we read of abstruse words like synergy and capability profile. But the author amply explained what the subject meant, why it is necessary, how one goes about its planning and implementation, and the discipline behind it – 'by planning I will achieve my objectives'.

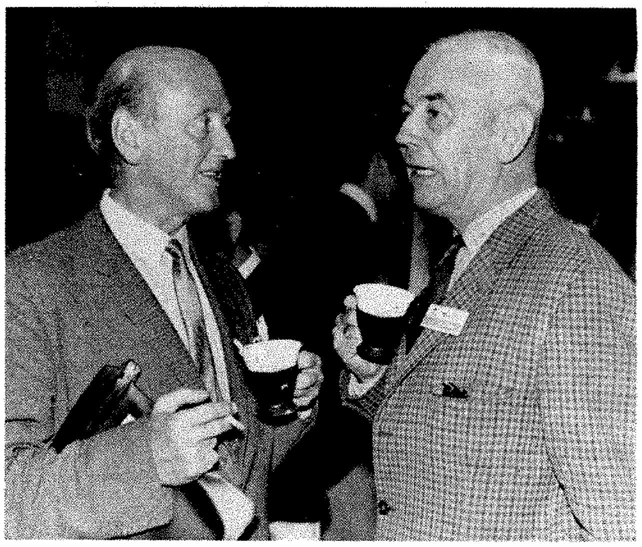
After dealing with long range planning as a function of management, the author then examined the new obligations and responsibilities, and hence opportunities, it put before the accountant, whether in the profession or industry. Related to the profession as a whole it was suggested that these require accountants to analyse their new strengths and weaknesses and to evaluate 'the environment in which it (the profession) operates the services it provides and the regard in which it is held'.

Much of the discussions in the groups concerned the basic differences between budgetary control conceptions – separate short-term planning in the author's view – to long-range planning as explained by him and the extent to which one can meaningly forecast say a marketing and economic situation in five years' time. Why on earth don't we at least try is probably a fair enough answer! Also, there was some fascinating if at times ribald debate on how practising members could apply LRP to their own firms.

Mr Rashleigh's paper dealt with the available aids to decision taking in portfolio investment selection, and afterwards one certainly felt that never again should we stick a pin in a Stock Exchange list and hope for the best. As the author pointed out, flair and experience in achieving maximum portfolio performance has no substitute but they can be materially enhanced by being prepared to use all the tools available.



The three delegates from the Czechoslovak Ministry of Finance, who arrived from Prague on Wednesday of last week to attend the course, talking to Mr C. Evan-Jones, M.B.E., Secretary of the Institute. They are (*left to right*) Mr L. Polasko, Mr K. Charvat, and Mr F. Kroupe.



Mr J. F. Allan, F.C.A., a member of the Council (*left*), exchanges views with Mr L. F. Durman, F.C.A., a group leader.

Although the paper fully dealt with the rather special position of gilts and gilt-switching, not surprisingly the equity section created more interest and comment. It elaborated on the methods of technical and fundamental analysis, the former concerned with the current and historical market in a particular company's share, the latter concerned with what a company does, its prospects, its management and its place in industry. In this case, amongst other factors, price/earnings ratio, dividend yield and asset backing come into the reckoning and their meaning and significance were discussed by Mr Rashleigh.

Questions to the author were highly varied and often topical, such as the request for his views as to companies compulsorily giving statements on their accounting procedures during take-over bids. He did not, however, rise to the bait by giving any of his 'top of the tips'. Perhaps his advice against regular portfolio switching is just as useful.

Other activities

Other course activities included the choice of visits to two local industrial concerns, Ely Cathedral, a model farm, a tour of Cambridge, and that inevitable seducer of accountants – the golf competition, held to the joy of non-golfers in a gale, as well as the first sight of the Institute film *The Money Game*.

The opening night began with an informal talk by Mr Harold Wincott on 'The role of the financial commentator', the expected lucidity and wit being well in evidence; the closing night saw the Guest Night Dinner, attended by College officials and other guests who included Mr T. D. Lorimer, F.C.A., President of the Irish Institute. The writer was unable to ascertain the latter's views on the musical carousel which followed, but surely it would have graced the Irish on St Patrick's night.

Cost Accountants' Summer School

NEARLY 100 cost and management accountants representing a rich variety of industrial experience gathered at St Catharine's College, Cambridge, on Monday of last week for the 19th summer school of The Institute of Cost and Works Accountants. The main objective of this year's school, which concluded last Saturday, was to consider how effective co-ordination of business functions can help to achieve improved profitability. Various aspects of the main theme were highlighted by a well-designed programme, which offered ample opportunity for group discussions and set the pace towards creative thinking and exchange of ideas on many current problems in management accounting.

The school was opened by the President of the Institute, Mr R. Glendinning, M.A., C.A., F.C.W.A., on the Monday evening, and there followed a case study exercise which was briefly introduced by Mr J. E. Smith, F.C.W.A., senior lecturer at the University of Aston in Birmingham, and Mr A. G. Kearns, F.C.W.A., senior lecturer at Hatfield College of Technology. The value of discussion groups – a distinguishing and important feature of the summer school – was emphasized by Mr Smith who said that their main purpose was to encourage imaginative thinking, ability to analyse problems and readiness to make decisions.

Group reports dealing with the agreed evaluation of problems presented by the case study were subsequently discussed at a full meeting of the school.

Problems arising through company growth

The objective of the first paper, 'Improving effectiveness in accounting', introduced by Dr C. J. Anson and Mr F. H. Pritchett, consultants with Urwick Orr & Partners Ltd, was to examine some of the accounting problems arising through the growth of a company and to indicate how they could be tackled more effectively. The authors asked members of the school to consider and comment upon various changes in accounting methods aimed at reducing the cost of providing accounting information and making better use of it. Among the problems discussed were: the level of accuracy needed in accounting data, the measurement of risk and uncertainty in investment decisions, and critical path planning in accounting projects and efficient use of staff.

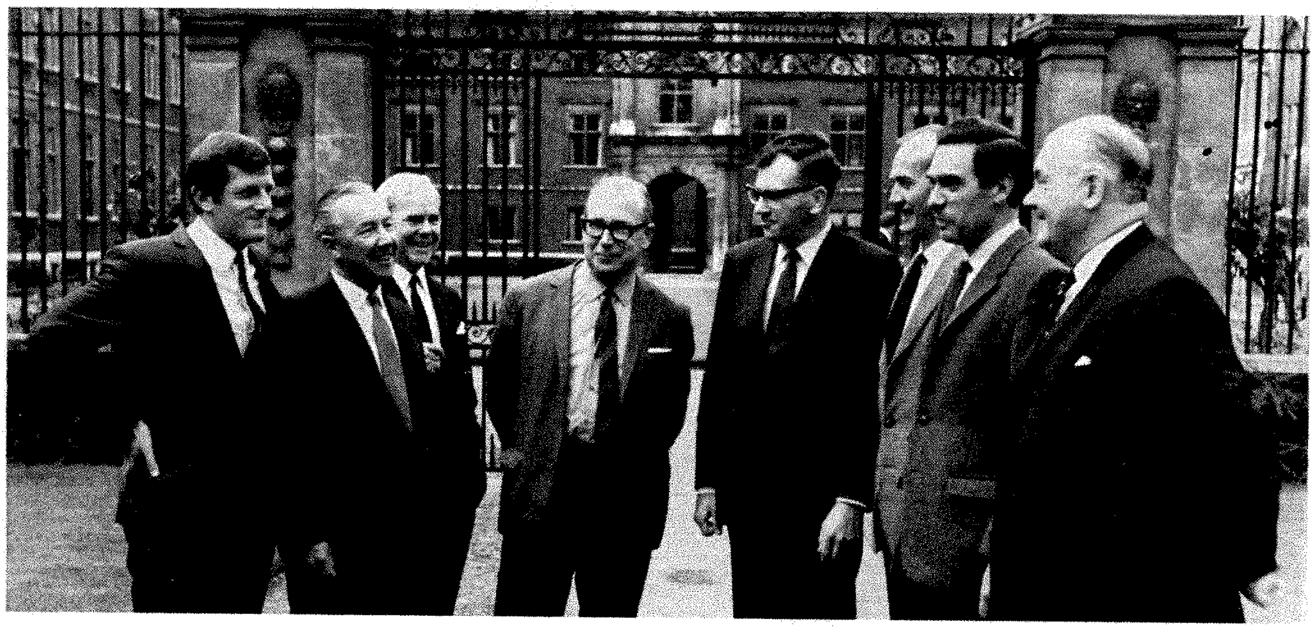
Management techniques

Various techniques mentioned in the paper – risk and utility analysis, sampling, decision trees, multiple regression and others – aroused a great deal of interest and comment and several members expressed their intention to use these management techniques with their own companies. Dr Anson and Mr Pritchett subjected many points raised in the group reports to a detailed and valuable analysis which stimulated a lively discussion during the joint session of the school on Thursday morning. The general consensus of opinion amongst members was that the paper provided an excellent stimulus for members to take a close look at the accountant's contribution to the effective management of a business.

The second paper, 'Marketing research for optimum profit', was introduced at the Thursday morning session by Dr F. T. Pearce, B.COM., PH.D., F.S.S., consulting economist and Council member of the Industrial Marketing Research Association, who appealed for closer co-operation between the marketing research men and management accountants.

There were many areas, he said, which would be ideal for exploratory joint discussions between the two professions. Cost/revenue relationships, sampling techniques applied to determine profitability in cost functions, stockholding levels and determinants or the value of pricing mechanisms were some of the areas mentioned in the paper.

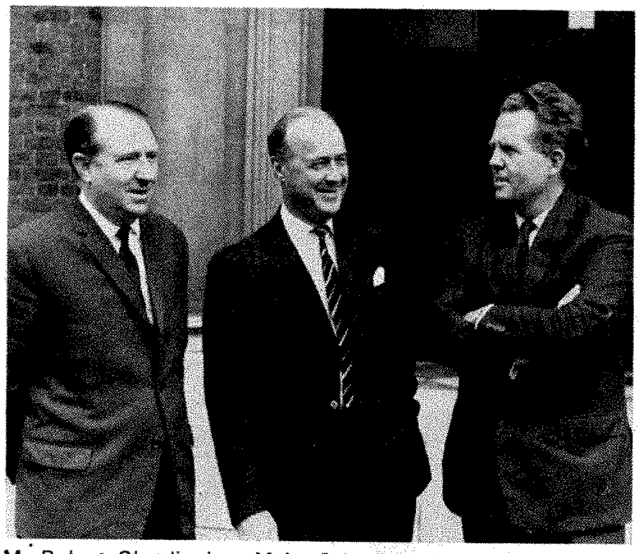
One of the discussion groups in action. These meetings played an important part in the success of the school.



A moment of relaxation for the group leaders. *Left to right:* Messrs M. B. Ferguson, A.C.W.A., C. W. Pateman, F.C.W.A., B. M. Johnson, F.C.W.A., D. A. Savage, B.Sc.(Econ.), F.C.W.A., J.Dip.M.A., L. Wheldale, F.C.W.A., J.Dip.M.A., B. Hails, A.C.W.A., W. G. Northon, F.C.A., A.C.W.A., and S. E. Woods, J.P., F.C.W.A., F.A.C.C.A., a Vice-President of the Institute and Chairman of the Education Committee.

The response of most groups to such inter-disciplinary discussions was somewhat cautious, although it was generally agreed that joint effort on specific projects could be a very effective one.

One of the obstacles to a full understanding between professions is, no doubt, the obscure terminology which – as many members felt – calls for a glossary before an effective dialogue can be established. 'The marketing man', said one report, 'is probably more guilty than the accountant of wrapping up simple facts in vague terminology and to this extent appears to be his own worst enemy'. Nevertheless, Dr Pearce's paper served as an excellent catalyst inducing a great deal of self-questioning and self-criticism within all the groups.



Mr Robert Glendinning, M.A., C.A., F.C.W.A., President of the Institute (*centre*), with Mr A. G. Kearns, F.C.W.A. (*left*), and Mr J. E. Smith, F.C.W.A., authors of the two case studies discussed at the school.

Good communications

On Friday afternoon, the closing address on 'Good communications and their contribution to profits' was given by Mr J. G. R. Tyndall, managing director and chief executive of Miles, Druce & Co Ltd. His talk, illustrated with an imaginative selection of slides, was itself an excellent example of good communications.

A crisp and informative description of his company's efficient use of communications in which a sophisticated computer system is employed for stock control and order processing was received with great interest. The secret of Mr Tyndall's success in streamlining the communication system within his company could, perhaps, be best explained by his sincere belief in the value of human relations. 'Whole areas of a communication system may be automated', he said,' but at each end of it you will find a human being. The ultimate test of the communication system depends on the willingness, ability and understanding of those two people.'

Closing dinner

The school ended on Friday night with dinner held in the College Hall and attended by members and invited guests. The toast to the University and City of Cambridge was proposed by Mr E. D. Bishop, F.C.W.A., F.C.I.S., a member of Council. Dr S. C. Aston, T.D., D.L., Fellow and Bursar of St Catharine's College, responded on behalf of the University, and Alderman George Dean, Deputy Mayor of Cambridge, on behalf of the City. The toast to The Institute of Cost and Works Accountants was proposed by Mr Stanley J. D. Berger, O.B.E., M.C., F.C.I.S., formerly Director and Secretary of the Institute, and the President of the Institute responded.

Eighteenth National Taxation Conference

THE eighteenth National Taxation Conference organized by our contemporary *Taxation*, opened in The Congress Theatre, Eastbourne, on Friday of last week before an audience of several hundred members of the accountancy and legal professions and representatives from industry and commerce. The proceedings continued until last Monday afternoon.

The conference, which was under the chairmanship of Mr Percy F. Hughes, Editor of *Taxation*, included a number of enjoyable social occasions and a special programme for the ladies, together with a golf competition on the course of the Royal Eastbourne Golf Club for the *Taxation* Challenge Cup which was won by Mr G. Smith, of York.

CHAIRMAN'S OPENING ADDRESS

In the course of his opening address, Mr Percy F. Hughes said:

The Finance Act 1968 is a lengthy document and the passage of the Bill through the House of Commons was experimental in character. The early stages were taken by a small committee instead of by a committee of the whole House, but it is doubtful if this has been considered to be satisfactory by any of the political parties. Taxation these days affects all members of the community in one way or another and there is, therefore, much to be said for all Members of Parliament being able to participate in the Finance Bill debates at all stages. In theory a small committee should work faster than a large one but things did not work out that way with the committee stages of the Finance Bill. I hope that if this experiment is repeated, the committee will devote its attention to debating matters of real importance.

Anti-avoidance legislation

The Court of Appeal has recently said that avoidance of tax may be lawful but is not yet a virtue. Legislation has been introduced in recent times to curb attempts at avoidance which quite obviously is due to the very heavy burden of tax which faces many taxpayers at the present time. Large numbers of well-to-do taxpayers are seeking pastures new. The special charge introduced by the Finance Act 1968 is regarded by many as the last straw in view of the fact that it can be confiscatory at the higher levels of investment income. Indeed, a person may have to dispose of some investments in order to meet his liability to the special charge and will no doubt suffer some capital gains tax when he does so. The extension of the gift *inter vivos* period from five years to seven years for estate duty purposes has also had a marked effect on the minds of people who are appalled by the combined effect of income tax and surtax, special charge, capital gains tax, betterment levy and estate duty.

Incentives

What incentive is there to the senior executive, or indeed to the more junior executive or professional man, who is ambitious?

If earned income relief were given on all earned income,

The Mayor of Eastbourne, Councillor C. G. Scott, J.P., opening the conference on Friday afternoon. Also in the picture (*left to right*) are: Mr H. P. Kennett, Conference Secretary, Mr Melvyn W. Rosser, F.C.A., Mr C. E. Sutton, F.C.A., F.C.W.A., J.Dip.M.A., and Mr Percy F. Hughes it would give some encouragement to senior managers and professional men and I believe would cost the Exchequer very little. It could have an important effect on ensuring that they give of their best for the benefit of the country and are thus less likely to go overseas to sell their time and expertise. Of course, if the limit of £2,000 above which surtax is charged could be increased, and here again I do not think that this would cost very much in loss of tax, it will also be of assistance in such cases. As the earned income allowances are a deduction for surtax purposes, the distinction between the position of a person with earned income and a person with unearned income is greater than once it was, but the £2,000 limit came into operation in 1919 and no one will deny that £2,000 fifty years ago was a different animal from what it is today.

Family taxation

Is the family to be the taxable unit or the single individual? The provisions of the Finance Act 1968 which come into operation next year concerning the aggregation of the income of a child with that of his parents, where the child is unmarried and is not regularly working, is a step towards regarding the family as the taxable unit, but if this is to be the Government's policy, it should apply also to capital gains tax. If a father makes a gift of shares to his infant son, he will be taxed on the income which the investment produces during the son's minority, and at the time of the gift will have a liability to capital gains tax if the market value of the shares at that time exceeds the cost of the shares to the father. Thus, for capital gains tax purposes, the shares are treated as if they were the subject of a disposal by the father but for income tax purposes are regarded as if no disposal has taken place.

Shortfall assessments

Inspectors of Taxes have had to deal with the shortfall provisions for close companies which came into operation from April 6th, 1966, although the predecessor of this legislation contained in section 245 of the Income Tax Act 1952 was dealt with by a specialized section of the office of the Controller of Surtax.

In the case of trading companies, it is necessary to have regard to the requirements of the trade or business when deciding what distributions ought reasonably to be expected and, therefore, it follows that this is not an exact science. Although section 77 (2) of the Finance Act 1965 sets a ceiling, it cannot be said that the calculated ceiling is right but a distribution which is somewhat less must be wrong. Each case must depend on its facts but if the ceiling is £10,000, how can it be said that distributions of £9,500 are unsatisfactory in the case where a company is carrying on active trade.

Then, again, the ceiling is calculated by reference to the profits as computed for tax purposes and there may be written off in the accounts a number of items which have been incurred during the accounting period but which are not allowable for tax purposes. The fact that such expenditure can properly be written off against profits of the current year is surely some indication that that expenditure should be provided for on a prudent commercial basis out of profits and should, therefore, be taken into account when considering the required standard which the company should attain for its distribution for the year in question. I have seen cases where the profits net of tax have been quite trifling in amount; in some cases only shillings and where, because of the precise ceiling computation, it has been suggested that there should be a shortfall assessment.

BUSINESS SESSIONS

The Land Commission – Betterment Levy

Mr Melvyn W. Rosser, F.C.A., a member of the Land Commission, addressed the first business session on 'Functions of the Land Commission, with particular reference to betterment levy'. Mr C. E. Sutton, F.C.A., F.C.W.A., J.DIP.M.A., was in the chair.

Mr Rosser outlined in general the provisions for imposing betterment levy and discussed the provisions about the notification to the Land Commission where relevant transactions are carried out. He dealt with the possibility of double levy where levy has already been assessed under Case C and he stressed that failure to notify under Case C involved fairly heavy penalties. As regards practical experience of the working of the Act, he said that some three to four months was required for the purpose of valuation and inquiries before an assessment to levy is raised. He dealt in detail with the extremely complex provisions regarding the distinction between outline planning permission and detailed planning permission and concluded with a warning for those who obtained outline planning permission before April 1967 for one project, but then change their minds and carry out a project of a different kind.

Turning to the question of the base value, he pointed out that in the case of a disposal under Case A, the alternatives were eleven-tenths of the current use value or the price paid on an acquisition within certain time limits. He explained that the addition of one-tenth to the current use value was by way of an encouragement to redevelop already developed land. In the case of development of agricultural land, the one-tenth addition produced in practice a very small alleviation indeed. Where property was already developed, the one-tenth could amount to a very useful relief from betterment levy. Mr Rosser dealt in some detail with the restrictions on the scope of the use of the price paid as a base value.

Taxes – Economic Aspects

On Saturday afternoon the first paper, 'Economic aspects of capital gains tax, corporation tax and value added tax', was given by Professor A. R. Prest, Professor of Economics and Public Finance in the University of Manchester. In the chair was Mr J. P. Landau, F.A.C.C.A., President of The Association of Certified and Corporate Accountants.

It was sheer waste, he said, to introduce reforms to existing taxes which needed a large amount of additional administrative effort without any offsetting advantages. One of Britain's troubles in recent years had been the submergence of market forces beneath a 'welter of controls, administrative regulations and so on'.

On the subject of capital gains tax, Professor Prest advocated increasing the present £50 minimum exemption limit to £250; abolition of stamp duties; and the offsetting of short-term losses against capital gains and vice versa. He also wanted to see some differentiation between the rates of tax on shorter and longer term gains by a system of tapering on the lines of the Swedish system.

Dealing with corporation tax he said there should be a major reform to remove some of the differentiation against recipients of dividends and capital gains. He was critical of investment grants – 'I have always thought that the January 1966 White Paper and subsequent legislation were retrograde moves' – payments were totally unrelated to profit records, operating efficiency and so on. Moreover, it had meant the setting up of a whole new administrative apparatus at the Board of Trade without any appreciable saving of manpower by the Inland Revenue.

Referring to value added tax, Professor Prest said that while TVA had a lot of good features, e.g. comprehensiveness not possessed by purchase tax in its present form, nevertheless it would not be difficult to rearrange the latter to conform with these requirements. He was, however, concerned rather with TVA as a substitute for corporation tax. While he accepted that there was something in the contention that TVA was preferable he warned against rash promises that the 'new Jerusalem' would dawn on the day Britain changed over to a TVA system. Manufacturing industry would benefit relative to other sectors and corporations would benefit relative to unincorporated businesses. At the same time the distributional effects of changing from a corporation tax to a TVA would not be very palatable and the spiral of cost inflation would be given a further twist.

Capital Gains Tax

Professor D. S. Anderson, B.A., C.A., then took the chair for an address by Mr Philip Lawton, B.A., LL.B. (CANTAB.), solicitor of the Supreme Court, on 'Capital gains on disposal of property'.

Mr Lawton reminded his listeners that whenever a disposal of land realized development value the question of betterment levy arose. He himself was dealing primarily with disposals where there was no such realization of development levy. The speaker plunged straight into that very difficult problem of deciding whether a disposal outright of a piece of land, the disponer retaining other land, was a full disposal or what the Act called a 'part disposal'. The 1965 legislation left it to be inferred that a part disposal occurred only when the owner of an asset disposed of an interest in it. However, the 1966 legislation, in paragraph 4 of Schedule 10, dealing with compulsory purchase, indicated that the sale of a piece of land out of a larger holding could be a part disposal. Mr Lawton suggested three tests as follows:

(1) Had the larger holding changed its nature before the disposal, e.g. by the erection of a building on the part disposed of?

(2) Was there any common expenditure to be apportioned? Thus if the disponer had acquired the totality of the land at one time for a single unapportioned sum, then disposal of part of that land would be a part disposal.

(3) For very large scattered holdings, as in the case of the *Duke of Devonshire* ([1967] 1 All E.R. 129), then it was understood that the Revenue applied the principle of that decision for capital gains tax purposes.

The speaker then went on to emphasize the importance of the distiction between disposal and part disposal. He stressed the difficulty of construing the expression 'an appropriate proportion' as regards the expenditure on the acquisition of the totality.

After dealing with the difficulties of establishing the date of a disposal, Mr Lawton dealt with the granting of leases. He mentioned the provisions for writing down the value of a short lease so as to increase the taxable gain on its disposal, and went on to point out that there was no corresponding allowance for the appreciation of a reversion. This certainly gives the Revenue the best of both worlds. One answer would seem to be put your short lease into a company.

On Saturday afternoon, Mr Philip Lawton, B.A., LL..B., a solicitor of the Supreme Court, answers questions with Professor D. S. Anderson, M.A., C.A., Immediate Past President of The Institute of Chartered Accountants of Scotland, in the chair.

Finance Act 1968

The first address on Monday morning was given by Mr John E. Talbot, F.C.A., on 'Recent legislation – the Finance Act 1968', the chairman being Mr W. R. McBrien, F.C.A.

Mr Talbot dealt first with the new provisions regarding the aggregation of children's income for the year 1969–70 and subsequent years. He suggested that one device which could be adopted was for the family company to declare an extra dividend before April 6th, 1969. As regards section 18 (post-cessation receipts) Mr Talbot said that this section dealt with a hiatus derived from the *Ahmedabad* decision and the wording of section 32 of the Finance Act 1960. Mr Talbot also discussed the implications of the new provisions about know-how.

When discussing section 23 (stock dividend options) the speaker pointed out that the new charge was confined to the case where the option is offered by a resident company. Turning to the new exemptions for chargeable gains not exceeding £50, Mr Talbot said that the Revenue had indicated that they would generally accept the taxpayer's statement that his net gains were below £50. He pointed out that the exemption was so small as to be no more than a gesture. The real need, surely, was for an exemption of proceeds up to say £1,000 for all assets and not only for chattels. This would save the cost of working out what the precise gains were. The speaker thought that the new rule that shares be dealt with on a straightforward rule of first in, first out, as against pooling, would produce a useful degree of simplification.

Turning to estate duty, Mr Talbot went through the various new provisions in this respect, in the Finance Act 1968. He stressed that section 39, although it carried the marginal note 'discretionary trusts' had a very limited purpose: namely to reverse the decision in the *Gartside* case.

There was no change in the estate duty position of the large majority of discretionary trusts. Such trusts might one day be attacked on a wider front, but this had not happened yet.

Mr Talbot devoted the remainer of his address to the special charge.

Corporation Tax: A Practical Point

The final session proved to be a particularly interesting one in that Mr John Docwra, F.C.A., dealt with some highly practical points on corporation tax. Mr N. V. Hogan, B.A., B.COMM., F.C.A., took the chair.

Mr Docwra pointed out that in the case of a group of companies an election for the payment gross of intra-group dividends should be made in every case, but it did not prevent a member of the group from deducting tax from the dividends if it so desired. The Revenue have suggested that a dividend paid *in specie* cannot be paid gross under a group election on the ground that such a dividend is not 'paid'. The speaker said he could not follow this reasoning of the Revenue. There were two cases in which the dividend should be paid net notwithstanding a group election. The first was to absorb the subsidiary's own franked investment income; the second was to prevent the restriction of the subsidiary's claim for overspill relief, where the subsidiary was in receipt of foreign income.

Mr Docwra gave some interesting facts about the question of charges on a company's income. The Revenue were insisting that section 52 of the Finance Act 1965 should be applied on the footing that no relief could be given unless the charge had actually been paid in the accounting period. Mr Docwra pointed out that this raised difficulties for some companies and might result in an extensive tax charge. He said the Revenue have stated that relief in respect of bank overdraft interest actually paid after April 5th, 1966, would not be refused solely by reason of the fact that the interest in question had been debited by the bank to the company's account prior to April 6th, 1966. The section denies relief for payments charged to capital. In the speaker's view this meant physically charging the interest to a capital account in the books of the company. He thought it was possible, as an alternative (especially in a property development company), for the interest to be written off in the company's accounts against its revenue, but at the same time for the company to write up the value of its property.

Mr Docwra went into detail with the distinctions between the 1954 legislation and the 1965 legislation concerning the reconstruction of trading activities without any effective change of ownership of the trade. He pointed out the pitfalls which might arise from these distinctions. He then went on to deal with section 65 of the 1965 Act, the rubric of which was in the somewhat misleading terms of 'Dividend-stripping and bond washing'. Here again he pointed out some pitfalls which might arise owing to the way in which the section had been drawn. Turning to close companies he pointed out that loans to participators or their associates, although caught by the 1965 Act, did not constitute distributions. This meant that the income tax paid by the company could not be offset against tax suffered on franked investment income. Moreover, the loan at the time it is made has no effect on the recipients' surtax position. He thought that paying off debts to third parties for the benefit of the participator did not constitute a loan or advance to the participator. For this he relied on *Potts' Executors* case. As regards shortfall assessments, he had found a quite amazing difference in approach between individual inspectors of taxes up and down the country. He believed that the present record for a short-fall assessment was £5. Although, in the past, Special Commissioners had tended to look at a group as a whole, he warned his hearers that in future, in considering what dividends should be paid by members of a group, each member should be considered by itself. Any shortfall should be left with that subsidiary which had the best argument in favour of retaining profits. As regards the abatement where the trading profits were less than £9,000, he emphasized that even a dormant associated company might result in the loss of the abatement. Therefore, where a company did have a dormant associate, it was probably better to get rid of it. As to the definition of 'associated company' he gave an example of the haphazard operation. He said that the Board of Inland Revenue had announced in August that they would not strictly apply the provisions in certain cases. Inspectors of Taxes have been advised accordingly, so that open cases should be disposed of. However, settled cases would not be re-opened. The concession was contained in a letter from the Board of Inland Revenue to the Accountants' Joint Parliamentary Committee.

The speaker reminded his audience that an apportionment for surtax purposes would not be made for an accounting period unless an assessment had been made on the company, in respect of a shortfall, for income tax purposes. It was also provided that if a deduction had been made in arriving at the company's income for an annual payment, which if made by an individual would not have been allowed, this was to be added to the income apportioned for surtax purposes. The Inland Revenue have suggested that although a company might not have been assessed to a shortfall, nevertheless any annual payments of that description would be apportionable for surtax purposes. Mr Docwra said it might be that he had not fully understood section 78 (2) of the Finance Act 1965, but he failed to see how it was possible to add something to a nil amount. Recalling that a company now had a period of 18 months after the end of the accounting period in which to make a distribution to avoid shortfall, the speaker reminded his hearers that a distribution could take the form of a payment of directors' remuneration provided it was voted for the particular accounting period. It is not necessary in that case to give consideration to whether or not the remuneration was deductible under section 137 (*a*) of the Income Tax Act 1952. Shortfall assessments should always be avoided wherever possible, because one could never be sure that the position could be rectified in subsequent accounting periods.

MOCK INTERVIEW

A mock interview, held on Saturday morning, took the form of a discussion between an Inspector of Taxes and an accountant representing a company with a view to agreement of figures on shortfall assessments. Mr R. A. Blythe, Senior Inspector of Taxes, Inland Revenue, took the part of the Inspector, and Mr K. S. Carmichael, F.C.A., a partner in Wilson, Bigg & Co and a director of H. Foulks Lynch & Co Ltd, took the part of the accountant.

Detailed accounts and computations were distributed to the audience to assist in following the discussion and the last half-hour of the session was devoted to audience participation.

Notes and Notices

PROFESSIONAL NOTICES

ESSRS PEAT, MARWICK, MITCHELL Co announce that Mr J. B. HART, A., will retire from the Hong ong partnership on September 30th, 68.

MESSRS PEAT, MARWICK, MITCHELL Co and Messrs H. P. GOULD & SON, Norwich, announce that as from ctober 1st, 1968, they will jointly rm the Norwich practice of Messrs AT, MARWICK, MITCHELL & Co.

MESSRS PRICE WATERHOUSE & Co nited Kingdom firm) announce the irement of Mr P. F. GRANGER, .A., and Mr A. C. FALKNER, B.SC., .A., on September 30th, 1968. Mr F. GRANGER also retires from the sociated firm of MELLORS BASDEN & ELLORS.

MESSRS PRICE WATERHOUSE & Co nited Kingdom firm) announce the mission to partnership on October , 1968, of the following who will be sident in London: Mr T. J. BAYLISS, .C., F.C.A., until recently a partner their associated South American m, and Mr F. H. KING, F.C.A., r P. J. PULLIN, F.C.A., Mr G. H. ACY, F.C.A., and Mr P. GRANGER, .A., who have been members of the ndon staff.

APPOINTMENTS

r R. F. Burman, F.C.A., deputy airman of Booker Merchants Ltd, has been appointed chairman of United Rum Merchants Ltd.

Mr Paul Craven, A.A.C.C.A., has been appointed financial manager of Aston Martin Lagonda Ltd.

Mr Peter I. Dearne, F.A.C.C.A., has been appointed secretary to the United Kingdom board of the Migdal-Binyan Insurance Co Ltd.

Mr Bernard Dufton, F.C.A., has been co-opted a director of Metropolitan Railway Surplus Lands Company Ltd following the acquisition of the company by Metropolitan Estate and Property Corporation Ltd.

Mr P. Fine, F.C.A., has been appointed to the board of Chelton Holdings Ltd.

Mr George Thompson, F.C.A., has been appointed secretary of Bitumen Industries Ltd, and its two associated companies, Bitumen Industries (Contractors) Ltd and Thermobond Ltd. All three companies are subsidiaries of Bostik Ltd.

COMMITTEE ON CONSUMER CREDIT

Lord Hirshfield, F.C.A., senior partner in Hesketh, Hardy, Hirshfield & Co, Chartered Accountants, of London, and founder and chairman of the Trade Union Unit Trust Managers Ltd, has been appointed by the President of the Board of Trade as a member of the committee on consumer credit.

The committee which, as announced in our issue of July 13th, will be under the chairmanship of Lord Crowther, has been set up to make a wide ranging inquiry into consumer credit.

INVESTMENT GRANTS GUIDE

The Board of Trade have announced that, to clarify certain aspects of the Board's policy on investment grants, they have revised paragraphs 7, 8 and 68–77 of their booklet *Investment Grants – A Guide for Industry.*

All copies of the *Guide* distributed by the Investment grants offices from now on will contain the revised paragraphs.

PROPOSED INTEGRATION SCHEME

Next Week's Meetings

The following local discussion meetings of members of the various accountancy bodies have been arranged for next week. Members must produce their copies of the scheme to gain admission.

The Institute of Chartered Accountants in England and Wales

Monday:
Derby, Midland Hotel, Midland Road, 6 p.m.

Thursday:
Birmingham, University of Aston, 6.30 p.m.
Romford, Kings Head Hotel, Market Place, 6.45 for 7.15 p.m.

The Institute of Chartered Accountants of Scotland

Tuesday:
Inverness, Cummings Hotel, Church Street, 7.30 p.m.

Thursday:
Ayr, Station Hotel, 7.30 p.m.

The Association of Certified and Corporate Accountants

Monday:
Nottingham, Welbeck Hotel, Milton Street, 6.15 p.m.

Tuesday:
Cambridge, University Arms Hotel, 6.30 p.m.

Wednesday:
Norwich, Royal Hotel, 7 p.m.

The Institute of Cost and Works Accountants

Tuesday:
London, Connaught Rooms, Great Queen Street, 6.30 p.m.

Wednesday:
Southampton, Civic Centre, near Central Station, 6.30 p.m.

Thursday:
Bristol, C.E.G.B. Offices, Oakfield Grove, Clifton, 6.30 p.m.

Saturday:
London, Connaught Rooms, Great Queen Street, 10 a.m.

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SOUTH WEST LONDON DISCUSSION GROUP

The first meeting of the 1968–69 session of the South West London Discussion Group of Chartered Accountants will take place at the Kingston Hotel, 76 Fife Road, Kingston upon Thames, on Thursday next, October 3rd, at 6.45 p.m. for 7 p.m., when the subject for discussion will be 'Scheme for the development of the accountancy profession'.

MANAGEMENT DISCUSSION GROUP

The Management Discussion Group of the London and District Society of Chartered Accountants will meet at 6.30 p.m. on Monday, October 7th, at the National Liberal Club, Whitehall Place, London SW1 (room reserved in the name of Mr Stanley Dent). Mr L. J. Holman, B.SC., F.B.PS.S., will start the discussion, the subject being 'Staff selection – testing techniques'.

The membership subscription is 10*s* per annum covering all the remaining meetings, and is collected on first attendance.

AUDIT DISCUSSION GROUP

The Audit Discussion Group of the London and District Society of Chartered Accountants will meet on Thursday, October 10th, at 6 p.m. at The Lord Raglan, 61 St Martins-le-Grand, EC1, when there will be a discussion on 'Practical problems arising from the accounting disclosure requirements of the Companies Act 1967'.

All members of the Society are welcome to attend. It would be helpful if members would bring with them examples of any such problems they have experienced in practice.

STATUTE LAW SOCIETY

The Statute Law Society which was formed recently – as announced in *The Accountant* of July 6th – is an association of statute users with the chief objects of securing improvements in the system of producing and publishing Acts and statutory instruments and to further education in legislative processes. The Society is anxious to achieve as wide a support as possible in order that its recommendations carry maximum weight and readers interested in becoming members should write to the Honorary Secretary, Mr C. J. Whybrow, at 1 Essex Court, Temple, London EC4.

This autumn the Society is holding the following open meetings to which accountants are invited:

Mr Justice Scarman, the Chairman of the Law Commission, will speak on 'Statutes and the practitioner' on Thursday, October 10th, at 5 p.m. in the Middle Temple Hall.

Professor E. K. Braybrooke, of the University of Western Australia, will speak on 'The forms and language of legislation from the historical and comparative point of view' on Thursday, November 7th, at 5 p.m. in the Nisbet Hall, Inner Temple.

Professor A. L. Diamond, of the University of London, will speak on 'Searching law by computer: the Pittsburg system', on Thursday, December 12th at 5 p.m. in the Middle Temple Hall.

THE INSTITUTE OF INTERNAL AUDITORS

London Chapter

The first meeting of the 1968–69 session of the London Chapter of The Institute of Internal Auditors was held on Wednesday of last week at the Rembrandt Hotel, Thurloe Place, London SW7, when Mr S. L. Elkington, F.C.A., general auditor of the Ford Motor Co of Britain, spoke on 'Stock control and profitability'.

The Chapter's next luncheon meeting will take place on Wednesday, October 9th, when Mr L. R. Gibbons, F.C.A., of The Dunlop Rubber Co Ltd, will speak on 'Approaching decimalization.' Sir Bruce Fraser, K.C.B., Comptroller and Auditor-General, will give a talk on, 'My office and the Exchequer and Audit Department', on December 11th and guest speakers and their subjects at luncheon meetings to be held during the New Year will include: Mr R. Glendinning, M.A., C.A., F.C.W.A., President, The Institute
Cost and Works Accountants,
accountant-general of the British R
ways Board, on 'Accounting devel
ments in British Railways – inte
audit'; Mr A. Pinkney, F.C.A., a part
in Cooper Brothers & Co, on
audit approach to computers',
Mr W. H. Meador, B.S., of The C
Eastern Co Ltd, on 'Internal audit
in the US and UK'.

All luncheon meetings will be
at the Rembrandt Hotel, commen
at 12.30 p.m., and readers wishin
attend should contact the secretar
the Chapter, Mr R. P. Wylde, F.
Iraq Petroleum Co Ltd, 33 Caven
Square, London W1.

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place at the Shakespeare Hotel, S
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11th, December 8th to 13th
March 2nd to 7th. The fourth co
will be held at the Whately Hall H
Banbury, from April 21st to 26th.

Further particulars and applica
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